

1993

Quality of financial services conceptual issues and a case study in the Australian credit union industry

Cheung Kwai-lin
University of Wollongong

Follow this and additional works at: <https://ro.uow.edu.au/theses>

University of Wollongong

Copyright Warning

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site.

You are reminded of the following: This work is copyright. Apart from any use permitted under the Copyright Act 1968, no part of this work may be reproduced by any process, nor may any other exclusive right be exercised, without the permission of the author. Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material.

Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.

Unless otherwise indicated, the views expressed in this thesis are those of the author and do not necessarily represent the views of the University of Wollongong.

Recommended Citation

Kwai-lin, Cheung, Quality of financial services conceptual issues and a case study in the Australian credit union industry, Master of Commerce (Hons.) thesis, Department of Management, University of Wollongong, 1993. <https://ro.uow.edu.au/theses/2297>

NOTE

This online version of the thesis may have different page formatting and pagination from the paper copy held in the University of Wollongong Library.

UNIVERSITY OF WOLLONGONG

COPYRIGHT WARNING

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site. You are reminded of the following:

Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material. Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.

**QUALITY OF FINANCIAL SERVICES
CONCEPTUAL ISSUES AND A CASE STUDY
IN THE AUSTRALIAN CREDIT UNION INDUSTRY**

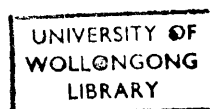
A thesis submitted in partial fulfilment of the requirements
for the award of the degree

MASTER OF COMMERCE (HONOURS)

from

UNIVERSITY OF WOLLONGONG

by



CHEUNG Kwai-lin

Department of Management
1993

To my family, Ku, his family and
the memory of my late father

Disclaimer

No portion of the work referred to in this dissertation has submitted in support of an application for another degree or qualification at this or any other institutions of learning.

Acknowledgments

Success is seldom the result only of the student's effort. There is always a number of people without whose support, success may be more difficult to achieve. I would like to express my thanks to Professor Michael Hough, my supervisor, and Associate Professor Paul Patterson, who expressed faith in my academic abilities. I also owe a special debt to thanks to Mrs. Therese Brugnera, Mr. John Erickson, Mr. John Flanagan, Mr. Tong Montgomery, Professor Gill Palmer, and Mrs. Joan Phillips who have generously shared their knowledge and experience with a sometimes slow learner.

I am grateful that the Association of New South Wales Credit Unions Ltd., the Credit Union Services Corporation (Australia) Ltd., the Illawarra Credit Union, the Reserve Bank of Australia, and the Macmillian Publishing Company (New York), provided information and advice during the study.

Most importantly, I must thanks my sister, Kwai Ha, and my beloved Ku, who believed in me, encouraged me, supported me and loved me. Without them, these acknowledgments would never have been written.

Abstract

The intention of the study was to add a further contribution to the field of *retail banking services quality* by (1) outlining a selected conceptual framework for continuous improving the overall banking services performance (2) applying a replication of the SERVQUAL instrument, proposed by Berry et al. (1988), in tracking the level of quality of the Illawarra Credit Union (1993).

The first part of the study presented an extensive literature review on the development of the Post WWII Australian banking and finance industry, the Australian Credit Unions Movement, bank management and marketing, and Total Quality Management. This review led to the conclusion that the size of a market participant was no longer a determining factor for the choice of a bank by customers. Rather, it was *quality* of service that attracted and retained customers. The chance of growth was greatly dependent on how well market participants could satisfy the unique needs of their customers within their institutional constraints.

The second part of the study presented and analysed the results of the first application of a replication of SERVQUAL as a measure of the level of quality of the Illawarra Credit Union, NSW. These results were measured against that of the original American results in two American retail banks that conducted by Berry (& colleagues) research team (1988). The comparison showed that despite the differences in time lapse between the two studies, and the cultural, economic, geographic and

social differences, the patterns of the services quality construct were identical. This finding provided circumstantial evidence of the efficacy of SERVQUAL in tracking the level of retail banking services quality on an industry wide basis in different geographic locations. The managerial implications of the results were also analysed and presented.

Key words : Australian banking and finance industry, Australian Credit Unions Movement, bank management and marketing, the Illawarra Credit Union, retail banking services quality, the SERVQUAL instrument, Total Quality Management.

Table of Contents

Abstract

| | | |
|------------|---|-----------|
| 1.0 | Introduction | .1 |
| 1.1 | Outline of the Study | .2 |
| 1.2 | Background to the Study : The Australian Banking and Finance Industry | .3 |
| 1.2.1 | The Australian Banking and Finance Environment : Pre-deregulated Period | .6 |
| 1.2.2 | The Changes in the 1980s | .8 |
| 1.2.2.1 | Deregulation - The Campbell and Martin Reports | .9 |
| (1) | Breaking the Entry Barrier | |
| (2) | Regulation by the Reserve Bank of Australia | |
| (3) | Other Regulations Related to the Financial Sector | |
| 1.2.2.2 | Electronic Banking | .16 |
| 1.2.2.3 | Corporate Banking | .17 |
| 1.2.2.4 | Globalization | .18 |
| 2.0 | A Literature Review on the Quality Management and Marketing in Financial Services | |
| 2.1 | The Structural Changes of the Australian Financial System and Its Impact on Retail Banking | .21 |
| 2.1.1 | Retail Banking - An Appraisal | .22 |
| 2.1.2 | Structural Changes of the Australian Financial System in the 1980s | .22 |
| 2.2 | Key Dimensions that Influence Strategies for Financial Institutions | .27 |
| 2.2.1 | Intangibility | .31 |
| 2.2.2 | Inseparability of Production and Consumption | .32 |
| 2.2.3 | Heterogeneity | .32 |
| 2.2.4 | Perishability | .33 |
| 2.3 | Marketing Strategy for Financial Services : Emphasising Long-Term Strategy | .35 |
| 2.3.1 | The emphasising of the Design of Facilities to Achieve Specific Marketing and/or Image Objectives | .37 |
| 2.3.1.1 | Physical Structure | |
| 2.3.1.2 | Internal Layout | |
| 2.3.1.3 | Facilitating and Supporting Services | |
| 2.3.2 | Human Component of the Physical Environment | .40 |
| 2.3.2.1 | Employees | |
| 2.3.2.2 | Customers | |

| | | |
|------------------|---|-------------|
| 2.3.2.3 | Marketing to Employees and Existing Customers | |
| (1) | Internal Marketing | |
| (2) | Careful Attention to the Selection and Training of Employees | |
| (3) | The Use of Practices designed to Obtain Consistent Behaviour | |
| (4) | A Complaints and Suggestions System | |
| 2.3.3 | Corporate Identity | .51 |
| 2.4 | The Australian Credit Unions System : An Overview | .54 |
| 2.5 | Quality Through the TQM Movement | .62 |
| 2.5.1 | Total Quality Movement | .65 |
| 2.5.2 | Emerging Concern for Service Quality | .67 |
| 2.5.3 | A Multi Phase Research : Development of the SERVQUAL Instrument | .70 |
| 2.5.3.1 | Phase I : The Development of the Service Quality Model | |
| 2.5.3.2 | Phase II : The Development of the SERVQUAL Instrument | |
| 2.5.3.3 | Phase III : The Development of the Extended Model of Service Quality | |
| (1) | The Methodology of the American Study in Service Quality | |
| 2.5.3.4 | Phase IV | |
| 3.0 | Purpose and Research Methodology | .84 |
| 3.1 | The Subject Organisation - The Illawarra Credit Union | .85 |
| 3.2 | Study Methodology | .85 |
| 3.2.1 | Study Instrument | .86 |
| 3.2.2 | Procedures and Sample Size | .87 |
| 3.2.3 | Approaches for Measuring Gaps 1 to 4 | .88 |
| 3.2.4 | Approaches for Measuring Service Quality Constructs Influencing Provider Gaps and their Causes | .90 |
| 4.0 | Analysis and Results | |
| 4.1 | Application of a Replication of the Banking Service Measures | .92 |
| 4.2 | Analysis Characteristics | .95 |
| 4.3 | An Empirical Comparative Analysis of the Level of Service Quality Between the Two American Retails Banks and the Illawarra Credit Union | .96 |
| 4.3.1 | Findings for the Management Information Gap (Gap 1) | .96 |
| 4.3.2 | Findings for the Standards Gap (Gap 2) | .103 |
| 4.3.3 | Findings for the Service Performance Gap (Gap 3) | .106 |
| 4.3.4 | Findings for the Communication Gap (Gap 4) | .108 |
| 4.3.5 | Key Contributing Factors of the Service Quality Gap (Gap 5) | .110 |
| 5.0 | Conclusions | .113 |
| Reference | | |

List of Figures

| | | |
|-------------------|--|------|
| Figure 2-1 | Unique Characteristics of Services and Resulting Marketing Problems | .34 |
| Figure 2-2 | Service Quality Model | .71 |
| Figure 2-3 | Extended Model of Service Quality | .80 |
| Figure 4-1 | Mean Scores of Customers' (Members') Expectations and Managers (Senior Executives') Perceptions of those Expectation | .93 |
| Figure 4-2 | Mean Scores of Factors Pertaining to Management Information Gap (Gap 1) | .102 |
| Figure 4-3 | Mean Scores of Standards Gap (Gap 2) and Its Antecedents | .104 |
| Figure 4-4 | Mean Scores of Service Performance Gap (Gap 3) and Its Antecedents | .107 |
| Figure 4-5 | Mean Scores of Communication Gap (Gap 4) and Its Antecedents | .109 |

List of Tables

| | | |
|-------------------|--|------|
| Table 2-1 | Theoretical Constructs Specific Variables | .77 |
| Table 2-2 | Sample Sizes for the American Empirical Study | .81 |
| Table 4-1 | Mean Scores of Customers' (Members') Expectations and Managers (Senior Executives') Perceptions of those Expectation | .93 |
| Table 4-2 | Survey Response Rates by Groups (Illawarra Credit Union) | .95 |
| Table 4-3 | Comparison of Survey Respondents Pattern with Australian Population Profile | .97 |
| Table 4-4 | Comparison of Membership Pattern between Survey Respondents to Australian Credit Unions | .98 |
| Table 4-5 | The results of the Chi-Square Calculation | .99 |
| Table 4-6 | Mean Scores of Factors Pertaining to Management Information Gap (Gap 1) | .102 |
| Table 4-7 | Mean Scores of Standards Gap (Gap 2) and Its Antecedents | .104 |
| Table 4-8 | Mean Scores of Service Performance Gap (Gap 3) and Its Antecedents | .107 |
| Table 4-9 | Mean Scores of Communication Gap (Gap 4) and Its Antecedents | .109 |
| Table 4-10 | Key Drivers of the Gap Factors that are Statistically Significant | .111 |

List of Exhibits

- Exhibit 1** Member Satisfaction Survey (Perceptions Section)
- Exhibit 2** Member Satisfaction Survey (Expectations Section)
- Exhibit 3** Employee Opinion Survey
- Exhibit 4** Executive Opinion Survey

Appendices

- Appendix 1** Letter Issued by the Reserve Bank of Australia in Confirming the Financial Crises Happened between 1987 to 1991
- Appendix 2** Chronology of Australian Financial Market Deregulation
- Appendix 3** Letter Issued by the Macmillian Publishing Company Giving Permission to use the SERVQUAL Instrument
- Appendix 4** Cover Letter for the Survey Questionnaire

Attachments

- Attachment 1** The primary data of the American Study of Service Quality (1988)
- Attachment 2** The primary Data of the Australian Study of Financial Service Quality (1992)

INTRODUCTION

The emergence of the issue of *services marketing* in 1953 led a plethora of theoretical and empirical papers on various aspects of service quality (Fish, Brown & Bitner, 1993). Two typical examples were articles such as the *Service Quality Model* (Figures 2-2, 2-3) and the *SERVQUAL* instrument both developed by Berry, Parasuraman and Zeithaml in 1985, 1988. These ushered in a new era of thought and approach in services marketing by increasing understandings of the behaviour of both the customers and the service providers, as well as highlighting the perceived operational and marketing deficiencies of service organisations (Lewis, 1989, Brown, Churchill & Peter, 1993). In 1988, Parasuraman research team conducted a quantitative research study designed to measure, by the use of SERVQUAL, the level of qualities of five national known American services organisations (two banks, two insurance companies and one telephone company). The overall results suggested that SERVQUAL could be used as a basis of measuring level of quality in a wide range of services categories. The present study tests and extends this information by :-

1. presenting a literature review on the historical issues of banking services quality and the Australian banking system. It emphasises the role of Australian credit unions within the deregulated retail banking system, and
2. providing a case study approach that compares the results of the SERVQUAL measure applied to the retail banking sector in the American study (1988) with those of the Illawarra Credit Union, NSW (1993). A quantitative analysis is considered to be relevant in view of the closely matched institutional characteristics and scope of businesses of the two retail banks in the American study and the Illawarra Credit Union.

Although this study is not inclusive, it does, however, provide a selected conceptual framework and guidelines for both bankers and marketers in (1) evaluating their overall service performance and (2) making corporate decisions which result in a distinct competitive advantage.

1.1 Outline of the Study

Chapter 1 provides an overview of : - (1) the development of the Post WWII Australian banking and finance industry, (2) the position of the Australian credit unions movement within the industry during this period, and (3) the general changes in customers' expectations and perceptions of the services on offer.

Chapter two includes the following reviews : -

1. the structural changes of the Australian banking system in the 1980s and its impact on retail banking;
2. the four unique characteristics of service (intangibility, inseparability, heterogeneity and perishability);
3. the necessary changes in the corporate philosophy of market participants in response to the dramatic changes of banking environment in the 1980s and beyond;
4. the Australian Credit Union System and gives a historical appraisal of its achievement ;
5. the development of Total Quality Management (TQM) and the emergence of the concept of service quality in the late 1970s. It also discusses the five components (tangibility, reliability, responsiveness, assurance and empathy) of SERVQUAL that is the instrument used for this study.

Chapter 3 details the research methodologies adopted for both the American and Australian studies in applying SERVQUAL in measuring the level of quality from the perspectives of both customers and the organisation.

Chapter 4 reports the empirical results of the Australian study in the Illawarra Credit Union and analyses the similarities and differences provided by the American and Australian studies.

Chapter 5 concludes the study with a discussion on the issues of retail banking services quality and SERVQUAL instrument, and the recommendations and conclusions of this study.

1.2 Background to the Study : The Australian Banking Industry

All Australian banking institutions are controlled by a three-tiered system in which the Federal government, the State governments, the Reserve Bank of Australia (RBA) and other statutory bodies are empowered to supervise the operation of all market participants in the banking sector (Bruce et al., 1991, p.16). The first, and most important tier, is regulated by the Australian government, implemented by the Treasury through the RBA and the Insurance and Superannuation Commission. The second tier is the co-operative corporate and securities industry regulatory system that is controlled by the States and supervised by the Australian Securities Commission (ASC) at the federal government level. The third tier is also controlled at State level, where individual state governments license and supervise a range of Non-bank Financial Institutions (NBFIs) such as credit unions, building societies, and other banking related co-operatives (Bruce et al., 1991, p.16; Ullmer et al., 1992). It also has the additional responsibility for setting the regulatory framework for individual state owned banks and insurance companies.

This three-tiered control system had been in operation for a long time without any serious thought being given to its functioning (Bruce et al., 1991, p.16). However, by the late 1970s, both the Australian government and the public had begun to question its efficiency, stability and competitiveness. The efficiency of the Australian banking system was the linchpin in achieving the government's free enterprise objectives and broad goals for national economic prosperity. It was this concern that prompted the government to appoint two consultative committees, the first in 1979 (The Campbell Committee) and a further one in 1983 (The Martin Committee), to examine the structure and operation of the Australian banking system (Australian Financial System, Interim Report of the Committee of Inquiry, 1980, p.1; Australian Financial System, Report of the Review Group, 1983, p.1). As a result of the recommendations of the Campbell Committee and the Martin Committee, the government officially announced its intention to deregulate the Australian banking system in 1984.

Between the 1940s and 1980s, government regulations had limited the ability and the need of the banking sector to respond with more flexibility to the changing banking needs of private individuals, businesses and government for both domestic and overseas markets (White, 1987). This over-regulated system was no longer applicable since Australia could no longer isolate itself from the international market.

Australia needed to participate in the international market to gain economic and social benefits from the principles of "comparative advantage" and "economies of scale". Bhagwati et al. (1983:9) suggested that by participating in international trade, Australia could concentrate its productive efforts on the products and services it produces best ; and use these products and services to trade for those products and services in which it had a comparative productivity disadvantage. Snider (1971:41) had already maintained that this trade practice would allow Australia to specialise in particular products with cost advantage and enjoy the benefit of "economies of scale" through specialisation. The consequences would be both to increase the total national output and optimise the usage of limited resources in order to eventually

increase the national living standard (Cateora, 1987, p.43). Government, academics and market practitioners all considered that banking deregulation was necessary because of the globalization of corporate businesses, the advancement information processing and communications technology. As an objective, Australia needed to have a more efficient banking system, one that is capable of responding quickly and appropriately to the changing needs of both the international and domestic markets (Itoh, 1985). However, two direct impacts to the deregulated system were : - (1) enlarging the competition in the banking market and (2) decreasing the means of government intervention in the banking system. The effects of these two impacts were to multiply the difficulties for banking institutions in managing their businesses and for the government in regulating the Australian banking market.

The many financial crises during 1987-1991 put the creditability and reliability of the banking institutions and even the government under scrutiny by the general public. Examples of these crises were the near failure of the WA Teachers Credit Union (August 1987) and the Swan Building Society in Western Australia (May 1991) ; the near collapse of the OST Friendly Society (July 1990) and the Moe District Credit Union in Victoria (January 1990) ; the Pyramid Building Society in Geelong (February 1990) and the near collapse of the State Bank of Victoria (February 1990) and the State Bank of South Australia (February 1991). This information was confirmed by the Reserve Bank of Australia (Appendix 1). Evidence has shown that a number of financial crises in 1989-1991 occurred in both government-owned state banks and member-owned credit co-operatives, though other market participants were still expanding their businesses in both domestic and overseas markets. Many economists and market practitioners described this phenomenon as a by-product of the banking deregulation in the early 1980s and the technological advancement. In order to verify this comment, it is necessary to give an in-depth examination on (1) the growth of regulation and the forces for deregulation in the late 1970s and early 1980s and (2) the Campbell and Martin Reports and note the subsequent changes in the 1980s.

1.2.1 The Australian Banking Environment : Pre-deregulation Period

Before deregulation, the Australian banking and finance industry was described as over-regulated and extremely conservative in comparison with its overseas counterparts (Vittas & Frazer, 1983). However, the relative stability of the finance industry began to change with the implementation of various recommendations from the Campbell and Martin reports. This section outlines the structure and operation of the Australian banking and finance industry before deregulation in 1984.

Before the formation of the Campbell Committee in 1979, the Australian banking and finance industry was conservative but profitable in terms of return on equity (ROE) when compared with its overseas counterparts (Cottrell, 1985). Australian banks were protected from many of the forces of competition and enjoyed an exclusive product franchise, a protected geographic franchise, and limits on interest rates. This was caused by : - (1) the ambiguity of the banking legislation that made it uncertain that applications for Australian banking licences from foreign-owned entities and domestically owned institutions would be accepted and that (2) there was a further perceived difficulty by these two groups of aspirants of establishing a finance business in competition with the major trading banks.

Historically, there was an entry barrier to the Australian banking market. Sections 7 & 8 of the Banking Act (1959) limited the issuing of new trading bank licences (Tyree, 1990, p.4). As a result, no new banking licences were issued between the introduction of the Banking Act in 1945 and the end of 1982 (Tyree, 1990, p.4). Moreover, the details of the Banking Ordinances in the procedures for establishing new banks, the statutory reserve deposit system, and the duties of banking institutions created perceived difficulties in the setting up and operating of a banking business in Australia (Bruce et al., 1991, p.23). Clearly, the nature of the banking market could be described as oligopolistic competition (Vittas & Fraser, 1983, p.76). This over-regulated environment had the effect of discouraging market

participants from the need to engage in price competition and/or improves the service quality on offer.

In the era of regulation (ie. Pre 1984), the banking and finance industry was dominated by the five major commercial banks. They were : -

- (1) Bank of New South Wales (The Wales),
- (2) Australia and New Zealand Banking Group (ANZ),
- (3) National Bank of Australasia (NBA),
- (4) Commercial Bank of Australia (CBA) and
- (5) Commercial Banking Co. of Sydney (CBC of Sydney).

In addition to these five, there was one other dominant bank. This was the Commonwealth Trading Bank (The Commonwealth), a government-owned body. The dominance of these six banks strengthened and reinforced the situation of oligarchy in the banking market (Vittas & Frazer, 1983, p.76). However, the relative stability of this structure was drastically changed by factors such as legislation, economic conditions and technological advancement. These external forces fundamentally changed the equality to challenge and the opportunity of all sizes of market participants to participate in the Australian banking market. These forces also challenged market participants operating banking services businesses in a so called "free competition" environment without any marketplace protection and/or product line exclusives.

Technological advancement provided excellent opportunities and possibilities for banking institutions to widen the scope of their services outside the limitation imposed by their immediate geographical locations. The result was to increase both the levels of convenience to customers and their organisation's own competitive position in the banking market. Clearly, the Australian banking market was proceeding from an "order-taking" environment to a "market-driven" banking environment (Donnelly, 1985, p.4).

1.2.2 The Changes in the 1980s

In the 1980s, the Australian banking market undergone extraordinary changes that reflected the interplay of the regulatory environment and market forces - including the condition of the economy, the development of technology and competition within the finance industry. In addition to the structural issues of entry of foreign banks, the abolition of ceilings on interest rates and foreign exchange control led many Australian banking institutions to become more proactive in satisfying customers and making amends for the lack of service in the past. Some examples of this, were the rationalisations of banks' branches and staffing, and mergers and acquisitions both locally and globally, which reflected the transformation of bank management philosophy. There was a steady growth in the number of institutions that were moving to operate their banking businesses on a multi-site and multi-segment basis to give greater customer convenience and choice. These service-oriented organisations were responding to the philosophy of *putting the customer first* and making major decisions and resource commitments in that spirit (Albrecht, 1988, p.110). Significantly, they were turning the traditional "pyramid" of authority upside down where now, in the "new" order, the customer was the starting point in defining the business and service deliverers were the key focus of the "pyramid". This paradigm shift from manufacturing management to service management led the Australian banking and finance industry to a new era and the resultant change was considered revolutionary (Albrecht, 1988, p.105 ; White, 1983).

This change arose from concern by academics that most banking institutions concentrated on the technical side of improving service quality and neglected to measure periodically the service performance (Parasuraman et al., 1985, 1988 ; Gronroos, 1990, p.65). Brown et al. (1989) claimed that banking institutions must conduct market research periodically for the purpose of identifying any inconsistencies between perceptions and expectations of service of the customers.

This information is crucial in (1) evaluating the service performance and (2) making corporate decision which in result in a distinct competitive advantage.

The development of the SERVQUAL instrument by Berry & colleagues (1988) contributed much in the area of the measurement of service quality. The instrument had been tested in America and the result showed a reasonable validity in measuring customers' perceptions of service quality in a wide range of services categories (Zeithaml et al., 1990, p.175). This study will apply the SERVQUAL instrument in assessing the level of quality of the Illawarra Credit Union and the result will be presented in Chapter 4.

1.2.2.1 Deregulation - The Campbell and Martin Reports

In 1979, the Federal Treasurer of the Fraser Coalition government announced the formation of a consultative committee, the Campbell Committee of inquiry into the Australian Financial System. In 1981, the final report was published which recommended extensive deregulation in the banking system (Perkins, 1989, pp.5-6). In 1983, the Hawke Labour government appointed a second Committee, the Martin Committee, to review the banking environment and the findings of the Campbell Committee. The recommendations from the Martin Committee were broadly similar to the Campbell report (Perkins, 1989, pp.5-6).

In summary, the Campbell and Martin Committees (Australian Financial System : Interim Report of the Committee of Inquiry, 1980 ; Australian Financial System : Report of the Review Group, 1984) recommended that : -

- i. the banking market should be allowed to operate in a freer atmosphere and with less government intervention,
- ii. the government should issue the trading licence to foreign and local investors to established their representative offices, branches and/or subsidiaries in Australia, and

- iii. the government should revise the current legislation to protect users of Electronic Funds Transfer (EFT) system (Richardson, 1989, p.38). It should be extended to the protection of rights and obligations of the various parties involved in EFT transactions (Richardson, 1989, p.38). Unfortunately, this last recommendation was ignored at this time (Richardson, 1989, p.38).

The first two principal recommendations from the two Committees were accepted by the Australian government that eventually altered the nature and scope of the available opportunities for banking institutions, and at the same time posed threat to the operation of all market participants. Details of the most important steps in the process of the deregulation are provided in Appendix 2. Their implications for the economy and for the operation of policy in Australia are considered below : -

1) Breaking the entry barrier

Deregulation opened Australian banking market to foreign competitors. The revolution began in July 1984 when the government invited application for wholly owned foreign banking institutions to establish their businesses in Australia and this aspect will be discussed more fully in section 2.1.2 (Zenoff, 1989, p.xviii).

The established banks were not satisfied with the policy of issuing foreign banks licenses. However, Mr. Seiichi Itoh, General Manager of The Bank of Tokyo, countered with the argument that Australian businesses would benefit from the entry of new banks. These benefits included : -

- a. facilitation of international fund-raising for Australian government and corporations;
- b. expansion of overseas trade, particularly with Japan, other Pacific Basin countries and China;
- c. assistance in high technology development;

- d. wider access to financial and trade advice and assistance "on the ground" in key overseas countries;
- e. more extensive international promotion of investment opportunities in Australia;
- f. increased employment and training opportunities in the banking system with and estimated 4,500 positions becoming available;
- g. direct and more immediate access to the latest international financial information systems, cash management service and advanced technology;
- h. opening up of new funding opportunities for smaller and medium sized enterprises;
- i. increased availability of funds for venture capital companies;
- j. a significant injection of project finance for such purposes as coal development, natural gas development and a variety of infrastructure projects as well as the development of "new energy technologies".

According to Itoh (1985), the entry of foreign banks would increase the accessibility of Australia to overseas banking markets and techniques, including the availability of funds and competitive interest rates. This did not happen, indeed, there was an increase in the already high degree of competition in the banking market that led to structural change within the banking sector (Pope, 1991). For both defence and survival reasons, existing banks had done much to prepare themselves for the new competition. One major strategy involved both merger and acquisition within the banking sector.

Before the deregulation, there were 13 registered banks in Australia (Bruce et al, 1991, p.23). However, a series of mergers took place before the entry of new banks and they merged into three major private trading banks (Tyree, 1990, p.4). These included : -

1. the merger between Australia and New Zealand Banking Group (ANZ) and the English Scottish and Australia Bank (ESA) in 1969 to form the Australia and New Zealand Banking Group (ANZ),
2. the ANZ merged with the Bank of Adelaide in 1979 to form the Australia and New Zealand Banking Group (ANZ),
3. the Bank of New South Wales (Wales) combined with the Commercial Bank of Australia (CBA) to form the Westpac Banking Corporation in 1982,
4. the National Bank of Australasia (NBA) was merged with the Commercial Banking Company of Sydney (CBC of Sydney) and formed the National Australia Bank (NAB) in 1981.

After these mergers, the three major trading banks were ANZ, Westpac and NAB. These three with the addition of the government owned Commonwealth Bank became known as the "Big Four".

Apart from reasons connected with defence and survival, Australian trading banks and the state owned banks perceived benefit from these mergers by enlarging their branch networks that enabled them to offer a higher level of convenience to their customers (White, 1985). They could also diversify their funding sources and remove foreign exchange control through their offshore trading partners. These mergers and rationalisations would strengthen the existing strategic position and market share of the established banks in both the domestic and overseas markets (Skully, 1979, pp.37-40). Contrary to expectation, there has been no significant breakdown of the oligopolistic market even after the entry of foreign banks. The "Big Four" - ANZ, Westpac, NAB, and the Commonwealth - are still dominant in the Australian banking market (1993).

In 1982, the government began to implement the deregulation process by lessening the control over the asset structure of banks' and their interest rates. These control mechanisms included : -

a) *Statutory Reserve Deposit Ratio (SRD) and Prime Asset Ratio (PAR)*

Statutory Reserve Deposit Ratio (SRD) The statutory reserve deposit ratio of depositing 3% of a bank's deposit liabilities of Australian dollars into the Reserve Bank of Australia was abolished on the 27th September 1988 (Bruce et al., 1991, p.17; Perkins, 1989, p.26; Tyree, 1990, p.5). The SRD requirement was replaced by 1% of a bank's total non-capital liabilities to the RBA (Perkins, 1989, pp.23-26).

Prime Asset Ratio (PAR) The Liquid Assets and Government Securities (LGS) was replaced by the Prime Asset Ratio (PAR) on the 9th May 1985 (Bruce et al., 1991, p.17). This required all saving and trading banks to reserve an equal amount of a specified percentage of their liabilities used for investing their prime assets in Australia. Shareholder funds are excluded from the calculation of the liabilities of a banking institution (Bruce et al., 1991, p.17; Perkins, 1989, p.26; Tyree, 1990, p.5). The ratio was initially 12%, reduced to 6% in May 1990 (Bruce et al., 1991, p.17; Perkins, 1989, p.26; Tyree, 1990, p.5).

The SRD and PAR systems were only applied to the saving and trading banks while NBFIs were excluded. Such an exclusion from the systems of NBFIs provided a strong incentive for them to devise and offer a wider range of alternatives to the traditional banking activities. They enjoyed an added advantage that their costs of funding would be relatively lower than that of the regulated banks.

The result was an increase in the ability of unregulated banking intermediaries to compete for deposit and borrowing with regulated banking institutions (Pope, 1991). This means that there was an increase in competition both between banks, and between banks and NBFIs. The growth and development of NBFIs in the early 1980s owed much to regulatory encumbrances on the banks (Cannon-Brookes, 1985). In view of this, the Australian Credit Union Industry, an element of the NBFIs group, has been chosen as the subject of this study in order to understand the influence of banking deregulation on institutional efficiency and costs, institution profitability and the pricing of banking services to the industry.

(b) Other regulatory powers

Despite the move toward deregulation, the RBA still legally retains most of its direct control powers (Bruce et al., 1991, p.17). For example, the RBA may intervene in the operation of any banking institution by specifying the conditions for the terms of lending which include the interest rate, amount of loans and terms of repayment (Bruce et al., 1991, p.17).

The Australian government has implemented major deregulatory changes in our economy in the 1980s. Fundamentally, the government attempted to remove regulations that caused major distortions in the allocation of investment funds and in the structure of capital raising of banking institutions (Warner, 1989, p.102). One example of a distorting element of the infrastructure was taxation (Warner, 1989, p.102). For example, many bankers and financial advisers concentrated on packaging investments and capital rising around some taxation anomalies. The removal of those anomalies was beneficial to the use of funds in terms of its effectiveness and efficiency. Most importantly, the reduction altered the degree of the types of official control possible by the government and its advisory and executive bodies. The government sought to use the principle of self-regulation in the banking market through open market operations. In other words, the government authorised the

market to regulate itself. Under these circumstances, the keeping of reasonable level of ethical standards by banking institutions is essential, otherwise, the credibility and reliability of both banking institutions and the government will be questioned.

(3) *Other regulations related to the banking sector*

(a) *Abolition of interest rate ceiling*

By 1985, two significant interest controls on deposit and lending by banking intermediaries were abolished (Hall, 1986). The first was the control on the trading bank loans of less than AUD\$100,000.000 (Perkins, 1989, pp.35-44). The second was the 13.5% interest rate ceiling on new self-occupied housing loans for all saving banks (Perkins, 1989, pp.35-44). In addition, maturity limits on bank's deposits were also abolished in 1985 (Hall, 1986).

The removal of interest rate controls and maturity limits on deposits enabled the existing banks to adopt a more innovative approach to tailoring the terms and conditions of loans that could closely meet the needs and requirements of a single and/or a wider range of borrowers (White, 1987). This policy enabled the existing banks to compete on equal terms with the new banks. It also stimulated the competition between the established banks and the NBFIs.

(b) *Floating exchange system*

In December 1983, the Australian dollar was floated and the control over the use of foreign exchange were removed (Perkins, 1989, p.8). The foreign exchange market was no longer restricted to the regulated banks. Both NBFIs and foreign exchange dealers were legally able to participate in the foreign exchange market (Cole & Cutler, 1989; Perkins, 1989, pp.8-10). An increase in the number of authorised foreign exchange dealers increased the complexity of the structure and diluted the

profit margin of many market participants. However, the floating exchange system lessened the financial risk for Australian banking institutions participating in international banking services (Warner, 1989, p.107). The reason for this was that the exchange rate was determined by market forces that might occasionally be lower than the pegged rates. If this was the case, banking institutions could suffer relatively less financial loss from the settlements of transactions.

1.2.2.2 Electronic Banking

From the 1970s, the information technology, available to the banking and finance industry expanded enormously. This technological advancement has gone hand-in-hand with the deregulatory process and changed the nature of competition in the banking sector.

Firstly, technology played a particularly important role in reducing operating costs and strengthening customer links (White, 1987). An example of this is the development of Electronic Funds Transfer Network System (EFTS) and Automatic Teller Machines (ATM) which allows for the development of a vast and/or even cross-state branch network. This extensive branch network system substantially increases opportunities for customers to access their bank accounts and, at the same time, lowers the banks' transaction costs (White, 1987).

Secondly, the development of the electronic banking network and sophisticated computer-based information systems made it possible to establish on-line terminals in branches and to centralise accounts control. This electronic revolution advanced banking services to an era of computerisation and standardisation. As an example, the national ATM network of most credit unions and building societies, and most trading banks enable customers to withdraw cash without entering the premises of the banking intermediary. Customers can also checking the balance of their account, and even make transfers between different accounts within the ATM network.

Thirdly, this extensive network system also increased the possibility of a cashless society. In the early 1970s, the "Big Four" had begun to work on the EFTS to service and support the network of the ATM system. It was realised that technological advancement would increase customers' expectations for banking services and facilities (Kloot et al., 1990, p.5; Reinecke, 1988, pp.26-27). It was also believed that customers would become more demanding with the accessibility and availability of the electronic delivery systems (Reinecke, 1988, pp.26-27). It was also thought that a national network system would benefit the banking system and the Australia economy as a whole (Kloot et al., 1990, p.1; Richardson, 1989, p.3). In 1989, Australia entered fully into the era of the cashless society and was the first country in the world to have a nationally operating Electronic Funds Transfer At Point of Sale Network (EFTPOS) (Australian Financial Review, 22-02-1989, p.1). The wide spread use of this system to retail outlets, has allowed bank customers to shop, for example, in Woolworths or BP, without cash and the account to be debited into their "handy card" account and to be settled instantaneously.

However, the complexity and the enormous initial cost of this system meant that the new and/or small size banking institutions have not found it economical to install their own systems. This strengthened the oligopolistic control of the established banks in the banking sector and/or forced NBFIs to cooperate on selected aspects by exploiting retail market niches (Australian Financial System, Report of the Review Group, 1983).

1.2.2.3 Corporate Banking

The problems of the 1980s in the corporate area could lead to the conclusion that deregulation caused many of these excesses. In fact, the anticipated and actual entry of new players into the Australian banking market was a spur to the competition that occurred in the corporate business area (Martin, 1991, p.22).

In the 1980s, large corporations such as Broken Hill Proprietary (BHP), Croesus Mining (CRS) and British Petroleum (BP) began to participate actively in the money market. They became involved in open market trading in aspects such as currencies, interest rates and other money market instruments (Valentine, 1989). By doing this, corporations could reduce the cost of capital and increase the flexibility of their funds. This "do-it-yourself" banking activity has continued to develop and expand in both Australia and overseas (Valentine, 1989). With the intervention of the large non financial corporations, the structure of the banking system has becoming more complex and competitive.

1.2.2.4 Globalisation

As we approach the year 2000, our society has become an increased "service" dominated economy (Vandermerwe, 1991, p.48).

The development of globalisation was brought about by a combination of deregulation, technological advancement and the changes of the nature of the businesses and the society. In the 1970s, globalisation had begun to appear throughout the business sector. Many enterprises extended their businesses to overseas markets that altered their needs and requirements of banking services. As their customers "went" global, their banking services suppliers must follow. However, following the trend was probably insufficient. Banking institutions need to continuously deliver need-satisfying products and services to their customers on a convenient and cost-efficient basis, otherwise, success could not be guaranteed in the competitive marketplace (Donnelly et al., 1985, p.157).

These business-related driving forces pressured most Australian banking institutions to expand their businesses to other financial markets so as to facilitate those customers engaged in international trade (Reinecke, 1988, p.19). As an example, financial loans could be exported electronically from central locations around the world where regulations and infra-structure permit. The whole process

could be done by global telecommunication infra-structure networks that are linked to various services stations. This integration improved the efficiency and effectiveness of various financial sectors in the world. "Efficiency" is doing the job right. "Effectiveness" is doing the right job. A combination of the efficiency and effectiveness is essential in both the public and private sectors so as to *do the job right first time*.

However, one drawback to Australia economy is the possibility of intervention by foreign institutions. Permission for Australian institutions to operate in other banking centres is in part dependent upon Australia's willingness to grant similar rights to overseas institutions. An increase in the number of foreign institutions and the amount of investments in Australia might bring potential problem(s) to the balance of trade and the economy as a whole. It also sets many managerial challenges in operating banking services in the global world of "Hi-Tech" and the new competitive environment. The practical challenge for bank management is how to allocate their limited resources to offer "real time" banking services on a global scale and on a cost-efficient basis.

Summary

The framework of the Australian banking and finance industry has been discussed and some of the key factors that have produced the present configuration of the industry that determine the direction in which it is presently developing.

The key factor that has pervaded the whole of section 1.2 was the effect of government deregulation on the operational and strategic planning of Australian banking institutions. The removal of lending control and most interest rate ceilings, bank mergers and foreign banks' entry in the early 1980s marked the history of the banking industry at this time. These regulatory changes gave most market participants the incentive and the ability to increase their competitiveness and further supports the view that there were economies of scale in retail banking. Most

importantly, the changes confirmed, and further encouraged, the switch from "product-oriented" to "market-oriented" policies in the Australian banking market. The size of a banking institution was no longer a determining factor for the choice of a bank by customers. Rather, it was the "quality" of financial services that attracted and retained customers. This was a valid explanation for the emergence and rapid growth of Non Bank Financial Institutions (NBFIs) since deregulation in 1984.

This study will focus on the quality of service of one specific version of an NBFI - a Credit Union. This is partly to provide a researchable topic area, and also to examine whether this type of NBFI can continue to meet the very challenges that led to their initial growth. The chance of growth is greatly dependent on how well credit unions can satisfy the banking needs of their members within their institutional constraints. Conducting service quality survey periodically can provide information on the banking needs of most targeted members and the current level of service quality. The SERVQUAL instrument, proposed by Berry & colleagues (1988), provides a comprehensive and generic measurement for tracking the level of service quality, and identifying the strengths and weaknesses of the operations and marketing of the organisation. This service quality information is crucial in formulating corporate strategies and tactics to ensure members' satisfaction. The bottom line is to satisfying the members by meeting their banking needs and increasing the level of service quality consistently.

A Literature Review on the Quality Management and Marketing in Banking Services

This chapter reviews the literature on bank management and marketing in the areas of organisational behaviour, organisational structure and control, quality management, and services marketing. It includes the following reviews : -

1. the structural changes of the Australian banking system in the 1980s and its impact on retail banking;
2. the four unique characteristics of service (intangibility, inseparability, heterogeneity and perishability);
3. appropriate strategies for managing and marketing banking services in the contemporary deregulated environment;
4. the Australian Credit Union System;
5. the development of Total Quality Management (TQM) and the emergence of the concept of service quality in the late 1970s. It also discusses the five components (tangibility, reliability, responsiveness, assurance and empathy) of the SERVQUAL instrument that is the instrument used for this study.

Each of these elements is considered separately and the following section provides a review of the structural changes to the Australian banking system in the 1980s.

2.1 The Structural Changes of Australian Banking System and Its Impact on Retail Banking

Section 1.2 concentrated on outlining the past and current features of the Australian banking and finance industry. This section considers, in greater detail, how the

banking deregulation, technological development and management style/philosophy have all worked together and how their continuing development will interact over the coming decade. It also speculates on the consequent changes to the Australian banking institutions in 21st century from those which are currently in operation. This analysis is based on the performance of the trading banks and NBFIs in the retail banking market since deregulation.

2.1.1 Retail Banking - An Appraisal

Walker (1983) describes the term "Retail Banking" as the servicing of the banking needs of personal customers and of small to medium sized businesses. It embraces all banking activities that are delivered through the Banks' retail outlets or other establishments specifically for these groups. The retail or personal banking services focus on the household rather than the commercial sector (Smith, 1986). The use of banking facilities is a necessary part of normal day to day activities for most individuals. Any improvement in the efficiency and effectiveness of the retail banking system will indirectly improve the general standard of living by making this financial aspect of living easier. This is the focus area of the NBFIs - Credit Union sector.

2.1.2 Structural Changes of the Australian Banking System in the 1980s

As reviewed in Chapter 1, the Australian banking system changed dramatically throughout the 1980s. Deregulation, in combination with technological developments and innovation, fundamentally changed the structure and operation of the system. Evidence has shown that the system had undergone a number of structural changes in this period as a result of the process of deregulation. Some of the key issues were : -

(1) Authorisation of bank mergers (June 1981)

Two proposed amalgamations under Section 63 of the Banking Act (1945). The first was the merge between the National Bank of Australasia (NBA) and the Commercial Banking Company of Sydney (CBC of Sydney) and formed the National Australia Bank (NAB) in 1981. The second was the amalgamation between the Bank of New South Wales (Wales) and the Commercial Bank of Australia (CBA) to form the Westpac Banking Corporation in 1982. These processes of consolidation were completed in 1982 and have outlined in section 1.2.2.1 (Hill, 1987, p.35; Tyree, 1990, pp.3-4).

(2) The formalisation of the Hill Samuel Bank (April 1984)

Hill Samuel, the London merchant bank, announced the reduction of its share holding in it's wholly owned Australian subsidiary to 9.9%. The purpose of this was to allow a new bank, the Macquarie Bank, to be formed around Hill Samuel Australia's merchant banking operations (Hill, 1987, p.35). The bank commenced operations on 28 February 1985 (Smith, 1986).

(3) Revision of foreign investment in Banking by the federal government (July 1984)

The Australian Labor Party (ALP) at its conference in July 1984 reviewed its general policy on foreign investment and the participation of foreign owned institutions into the Australian banking system (Pauly, 1987, p.19; Zenoff, 1989, p.xviii). The government, then in office, declared that its policy was to "encourage foreign investment, provided such investment was consistent with Australia's national interests and meets the needs of the Australian community." (Australia Department of the Treasury, 1982, p.V). As a result of this policy the government announced that (Hall, 1986; Hill, 1987, p.35; Khoury, 1990, p.169; White, 1987) : -

- a. between six to ten banking licences would be issued to foreign owned institutions by the end of 1984 and

- b. prospective licensees would be expected to offer significant benefits by way of new banking facilities and every effort would be made to achieve 50% Australian ownership of their local units.

As a result of these, forty applications for Australian banking licences were lodged at this time (Pope, 1991, p.9).

- (4) The reinstatement of the banking licence of the Bank of China (September 1984)

The Bank of China (BOC) was first granted its Australian banking licence in 1942 but this was revoked following the bank's declaration of its loyalty to the government of Taiwan in 1959. At this time, the Australian government only formally recognised the government of China based in Peking (Pauly, 1987, p.19). After that, policy changes of government of China hindered the operation of offshore banking. A critical change of the Chinese government's policy occurred in the late 1970s which was the "Open Door" doctrine. It was not until the early 1980s, the BOC showed an interest in operating banking services in Australia again and requested the reinstatement of its banking licence. This was granted in 1984.

- (5) Foreign bank entry (February 1985)

The Commonwealth government of Australia invited sixteen of the world's largest commercial banks to establish full-scale operations in the Australia retail banking market (Fraser, 1992, p.135; Pauly, 1987, p.1; Smith, 1986). All took up the offer and commenced their banking businesses by February 1985 except J.P. Morgan & Co (Khoury, 1990, p.162).

The major principles imposed upon foreign owned banking institutions by the Federal government in July 1984, limited the operations of foreign banks on the following grounds (Fraser, 1992; Lewis et al., 1988, p.47) : - Firstly, foreign owned banking institutions would have the option to operate as a branch or conduct their

banking activities through locally incorporated subsidiaries. Secondly, their activities were restricted to wholesale markets. Thirdly, foreign owned banking institutions would be able to participate in the foreign exchange market but be excluded from the domestic payment system. These three principle limitations imposed an operational and strategic hindrance of "cost efficiency" for foreign banks so that they frequently faced high unit costs in establishing and running their operations in Australia, especially in retail operations (Pope, 1991).

(6) The entry of domestic banks (1985-1990)

Six new domestic banking institutions were established in the late 1980s, all involving a conversion of NBFIs into licensed banks (Pope, 1991, p.9). These were the Macquarie Bank, the Advance Bank, the Challenge Bank, the Tasmania Bank, the Metway Bank and the Bank of Melbourne (Moore, 1992, p.180).

In 1992, both the St. George and Co-operative Hindmarsh indicated their intention to apply for banking licences and to seek Stock Exchange listing (Ullmer et al., 1992). St. George has now become a trading bank (1993).

All of these key issues of regulatory changes have affected the structure of the Australian retail banking market. In 1980, the Australian retail banking sector was dominated by a few trading banks. This oligopolistic structure was substantially changed with the advent of deregulation. By June 1990, for instance, Australia had 47 trading banks, 386 credit co-operatives, 146 finance companies, 56 permanent building societies, and 95 foreign owned banking institutions (Bruce et al., 1991, p.15). There could be no doubt that the regulatory change was the force behind the rapid growth in the Australia retail banking market and the increased competition in the market. However, it would be wrong to consider that regulatory change and regulatory restriction were the key factors in explaining the degree of competition and altering the structure of the Australian retail banking (Frost et al., 1986). Many examples could be quoted to illustrate that regulation and legislation had little to do

with the absence of effective competition or the lack of innovation in the Australian retail banking market. Some of these will now be reviewed.

In Australia, there were no regulatory restriction in the 1960s preventing trading banks from entering the residential mortgage market, or from competing more strongly for personal savings and investments, and for campaigning for the spread of the conventional banking habit (Valentine, 1990). It was a combination of poor planning and complacency brought about through the lack of an effective competitive spirit in most banks, which resulted in missing valuable opportunities which were capitalised by NBFIs (Frost et al., 1986).

The importance of effective strategic planning and the lack of competitive spirit were also illustrated by most trading banks in Australia in face of head-on competition from the NBFIs in the 1980s. It was not regulation or legislation that allowed credit unions to exploit the opportunities available in on-line computer operations, international linked ATMs, EFTPOS terminals, home banking services and automatic payroll service in the 1980s (Crapp et al., 1985, p.18). But rather it was the failure of banks to engage in effective marketing and their lack of innovation and understanding of consumer "desires" that gave the NBFIs the chance to operate in these products and service areas.

It was obvious that by 1990 the established banks were losing their market share and significance in the Australian retail banking market (Ullmer et al., 1992). This phenomenon is expected to continue and at a rapid rate unless banks pay greater attention to the banking needs of their customers, while at the same time reducing customer access costs (Thomas, 1987). Evidently, "customer satisfaction" is the focus of many NBFIs as revealed by their corporate strategic plans (Moore et al., 1988, p.47). The corporate philosophy of most NBFIs is to encourage saving, and to provide loans and other banking services at the best possible rate to their customers.

"Higher operating costs" is no longer a valid excuse for banking characteristics such as high interest on borrowing, low deposit interest rates and related charges. It is now readily accepted that interest margins are significant in

retail banking, primarily because funds can be raised so much more cheaply. It is also increasingly recognised that higher operating costs of retail transactions can be recovered by the introduction of electronic technology. If the bank's customers fail to perceive banking services at a satisfactory or desired level, it is sensible and rational of them move to other banking institutions such as credit unions and building societies for better service. This principle applies to all market participants regardless of size, type or location. In this context, the institutions which succeed will be those that concentrate on "identifying" and "fulfilling" the customers' needs, wants and desires. While the future cannot be guaranteed, bankers still need to be proactive in constituting their corporate strategies so as to manipulate and capture future markets. The ultimate success or failure of their moves will make a fascinating but future case study.

2.2 Key Dimensions that Influence Strategies for Banking Institutions

This section begins by elaborating on the possible reasons why the Australian banking and finance industry has needed to change its managerial and marketing skills in order to stay competitive.

Firstly, Labour Statistics Australia (1990) shows that employment in the finance, property and business services sector had experienced a steady growth in the 1980s and it was expected that there would be a continuing growth in terms of size, turnover and employment. The sector accounted for 8.1% of total Australia employment in 1980, 11% in 1988, and 11.56% in 1990. This ten year employment record of the finance sector reflected the growing importance of this sector to the Australian economy and its relative stability even during this current recession period. Accordingly, the credibility and the reliability of the finance sector play a significant role in the Australian economy. It is imperative for banking institutions to perform services dependably and accurately, otherwise, the customers' confidence is shaken in

its capabilities and undermines its chances of earning a reputation for service excellence (Berry et al., 1991, p.15). Forward looking organisations such as the State Bank of South Australia, the National Westminster Bank and the First Chicago Corporation all believed in this notion and saw "service reliability" as the essential ingredient of their battle plans in gaining customer's loyalty (Dawson, 1991; Goodstadt et al., 1990; Thomas, 1987). A wide range of on-going service quality programs were implemented by these organisations so as to reduce operating errors and correct potential problems before they arose. The ultimate objective was to provide *quality service* which deliberately translated into repeat business, referral and new business to the organisation (Thomas, 1987). In this context, the importance of the provision of quality service reinforces the significance of the present study to the development of Australian banking.

Secondly, the Australian government played a leading role in transforming the current business philosophy from "product orientation" to "market" or "customer" orientation. As discussed in section 1.2.2.1, the government was the instigator of financial deregulation in the 1980s. Deregulation itself was a vehicle for introducing the service concept to the banking market by emphasising the importance of satisfying customers' expectations (Goodstadt et al., 1990). Deregulation altered the infra-structure of the Australian banking and finance sector and increased its flexibility and responsiveness to the changing needs of both the domestic and international markets. This emphasis on "customer" or "market" orientation brought an attitudinal change to most banking institutions that they needed to satisfy most of their customers' needs. There has been a marked swing towards the "market" or "customer" oriented organisation throughout the world, and services marketing has become a recognised and accepted subset of this discipline (Cowell, 1987, p.47). There can be no doubt that services marketing is important, however, there is a need for researchers to think broadly about the other issues faced by contemporary banking institutions such as : human resources development, service quality control, operation management and ergonomics. Therefore, the considerations in this study will be

expanded to include these other management issues in order to obtain a balance between Human Resources, Marketing and Operations issues. They are also the techniques and processes used to deliver quality service in meeting customer service requirement(s).

Thirdly, the rapid development of "specialist" or "boutique" finance sector businesses illustrate that these relatively small sized businesses must have their own unique version of a "survival kit" in operating banking services in such a highly competitive environment. Deregulation significantly increased the number of participants in the banking market from the entry of both foreign and domestic institutions. Even in a crowded market there will always be room for banking institutions who can provide some additional competition or some niche service to the market (Fraser, 1992). This is a valid explanation for the steady growth of NBFIs in the 1980s.

The structural changes of the Australian banking and finance industry were outlined in section 2.1. Sections 2.2 and 2.3 provide the analysis of the necessary changes in the "business philosophy" of market participants in response to these dramatic changes of environment. The treatment will include the development of "tactics" in managing and marketing a banking services business effectively and efficiently in a deregulated environment. Issues such as management styles, marketing strategy, organisational structure and control will be included.

Many banking institutions have to strive very hard to survive and prosper or, at least, not to be defeated at the hands of more adaptive and agile competitors. By comparison, those organisations which are market oriented are relatively "proactive" in earning market opportunities and adopting advanced technology (Donnelly et al., 1985, p.6). These strongly follow the idea of the "service" concept typified by : doing the "little" things better than their competitors ; managing effectively the clues of the business ; listening carefully to employees and to customers ; investing in the deliverers of the service ; striving to exceed customers' expectations ; taking excellent

care of existing customers ; and always trying to improve their service performance (Berry et al., 1991, p.190). Most importantly, they are in constant pursuit of superior service performance by providing the "right" mix of products and services which are consistent with the preferences of their customers. These "great service" and "progressive" institutions spend much time and effort in working out a series of marketing and management strategies and practises to correspond with the changing needs of the target market. Their concern in "listening to" and "satisfying" customers give them a better chance of survival in such a competitive environment.

Whether banking institutions are developing their corporate plan or a marketing plan, the differences between physical goods and invisible services should be recognised. The existence of a number of unique characteristics of services shows that bank marketers cannot wholly duplicate the traditional marketing concepts for goods when applying thinking to quality in services. The unique characteristics of the context of each service should be taken into consideration when developing the service framework. The existence of these characteristics poses some vexing problems for "financial" marketers that are not faced by "goods" marketers. Therefore, a separate marketing treatment for services is required. In view of this, therefore, the purpose of this section is to discuss (1) the unique characteristics of services, (2) the marketing problems stemming from these characteristics and appropriate strategies to apply in order to overcome the problems.

A whole range of characteristics of services has been suggested and discussed in the literature on services marketing (Berry et al., 1989; Berry et al., 1991; Gronroos, 1990; Lovelock, 1991; Shostack, 1977; Zeithaml et al., 1985). A review of this literature shows that there are four broad dimensions to explain the differences between physical products and invisible services. The four dimensions are :

1. intangibility,
2. inseparability of production and consumption,
3. heterogeneity (nonstandardization) and

4. perishability (cannot be inventoried).

These four characteristics provide a conceptual framework for differentiating physical goods and invisible services which provide an understanding of the service concept. Each dimensions is discussed below : -

2.2.1 Intangibility

The fundamental difference between services and goods universally cited in the literature is "intangibility". Berry et al. (1991:93) defined service as a performance, experience, or deed which is less likely and able to be possessed. Most importantly, it is essentially intangible (Berry et al., 1989, p.24; Gronroos, 1990, p.29).

"Intangibility" describes the inability of services to be seen, felt, tasted, or touched in the same manner as products (Berry, 1980; Lovelock, 1991, p.41; Shostack, 1977; Zeithaml et al., 1985). Services cannot be displayed, physically demonstrated or illustrated ; they can only be experienced, created or participated in (Berry, 1980; Lovelock, 1991, p.41). Customers who shop for banking services typically have nothing tangible to place in a shopping bag unless they place money in the bag, then there is a component of physical goods at times. Bank customers also have to activate the ATM service, then participate in the selling, production and the delivery processes of the service.

Because of the high degree of intangibility, banking institutions frequently make services more tangible for customers by using concrete, physical evidence, such as services facilities, equipment, employees, communication materials, other customers and price lists (Berry, 1991, p.93; Gronroos, 1990, p.29). All these tangibles are "clues" about the invisible service which make the service more "showable" and "touchable" to customers (Berry, 1990). They may represent the service, but are not the service itself. The ultimate purchase of a service is still mostly "intangible".

2.2.2 Inseparability of Production and Consumption

The inseparability of production and consumption involves the simultaneous production and consumption which characterises more services than goods. Tangible goods are produced, sold and consumed whereas services are sold as they are produced and consumed (Lovelock, 1991, p.41; Zeithaml et al., 1985). Inseparability caused by the nature of services which is a series of activities or processes but not a "thing" (Gronroos, 1990, p.29).

Because of this inseparability, the consumer is involved and participated during the production of many services and may ultimately influence the service delivery and quality and also can affect the service, for instance, the customer is unable to understand how to work an ATM. Inseparability forces the consumer to have an intimate contact with the production process, and makes only direct distribution possible in most cases (Lovelock, 1991, p.49). The high level of interaction is not only between the production, marketing and consumption processes but also in the buyer/seller relationship. Because of these interactions, service providers play twin roles of "producer" and "marketer" in most services.

2.2.3 Heterogeneity

Heterogeneity entails the inability of a service provider to give consistent performance and quality of a service (Lovelock, 1991, p.41). There is a greater potential for nonstandardization variability in the performance of services because of the human elements in most of the processes (Berry et al., 1989, p.24). The quality and essence of a service can vary from time to time, place to place, and customer to customer.

The problems can be explained by the differences in the technical and interpersonal skills of service providers and in their personalities, and attitudes toward their work and also the different recipient levels of customer(s) (Donnelly et al.,

1985, p.140). These differences pose problems in achieving standardisation of output in most services even though standard systems may be used by all units within the organisation framework. As an example, banking institutions attempt to ensure conformity of performance and quality of service by setting standardised policies and procedures as general guidelines for employees to deal with the routine work. However, uniformity should not become so rigid that it does not allow any deviation whatsoever. This seldom happens in the banking and finance sector where the acquisition of new businesses is essential, and the calculated risk of waiving some conditions for loans for individuals or companies, whose financial record is known, is common place. Uniformity is applied in these instances by the procedure of referring these special cases to an appropriate level of authority. This shows that heterogeneity of service creates one of the major challenges to services marketers, that is, how to maintain an even and consistent quality of service and delivery to customers (Gronroos, 1990, p.30).

2.2.4 Perishability

Perishability is defined as services which cannot be stored and saved (Berry et al., 1989, p.24; Lee, 1989). Because services are performance that cannot be stored, service organisations frequently find problems with capacity planning to synchronise supply and demand (Zeithaml et al., 1985). If a service is not used when available, the service capacity is wasted. For instance, banking institutions cannot claim the income lost from unused safety deposited boxes. Conversely, when demand for a service exceeds supply, the excess businesses may be lost. A key decision for service organisations is to adjust their capacity level to cope with the fluctuation of demand.

A summary of these characteristics of service with some of their associated implications and problems is shown in Figure 2-1. There is some dispute in the literature on services marketing whether or not some of these characteristics outlined below are useful in differentiating between goods and services (Cowell, 1987, p.26;

Lovelock, 1981). The position adopted here, is that it at least offers a simple framework for differentiating goods and services, and further research needs to be taken on a more complex taxonomy on the basis of product/service characteristics and market characteristics.

Figure 2-1 Unique Characteristics of Services and Resulting Marketing Problems

| Characteristics of services | Implications | Resulting Marketing Problems |
|-----------------------------|--|--|
| Intangibility | <ul style="list-style-type: none"> *Sampling difficult *No patents *Difficult to judge price and quality in advance *Services cannot be stored | <ul style="list-style-type: none"> *Cannot readily displays or communicate services *Services cannot be protected through patents *Prices are difficult to set *Places strain on promotional elements of marketing mix |
| Inseparability | <ul style="list-style-type: none"> *Requires presence of producer and consumer *Direct sale and limited scale of operations | <ul style="list-style-type: none"> *Consumer and services provider involved in production. Other consumers involved in production. *Centralised mass production of services difficult |
| Heterogeneity | <ul style="list-style-type: none"> *Standard depends upon who and when provided | <ul style="list-style-type: none"> *Standardisation and quality control difficult to achieve |
| Perishability | <ul style="list-style-type: none"> *Cannot be stored | <ul style="list-style-type: none"> *Services cannot be inventoried Problems with demand fluctuation |

Sources :

- (1) Cowell Donald (1987). The Marketing of Services. Heinemann. London, p.27.
- (2) Zeithaml Valarie A., Parasuraman A.& Leonard Berry L. (1985). Problems and Strategies in Services Marketing. Journal of Marketing. Spring (49) : 33-46.

Section Summary

This section has shown that the service concept has always been a part of the marketing strategy in the Australian banking sector but with the advent of deregulation, this concept became the most vital aspect in constituting the marketing strategic plan. It also illustrated that although there has been an important shift towards the concept of greater customer orientation, the unique characteristics of services still presented challenges to bankers and marketers.

The invisibility of banking services requires a manipulation of tangible clues to convey the desired quality message. The inseparability of services production and consumption implies that there is a high level of customer involvement in the production process of most services. Thus, the customer experiences at first hand an impression of the environment which formulates the perceived service quality. Typically, the customer of a steel manufacturing company will never know the attitudes, behaviour or communication skills of its workmen nor does this matter, but the attitudes and communication techniques of the service provider are part of the customer's experiences of the banking services. Most banking services are labour intensive and this makes their pursuit of excellent service a never ending quest, which reinforces the need of banking institutions to spend time and effort to gain commitment from "all" employees. This is the crucial task in achieving excellent service quality.

2.3 Marketing For Banking Services : Emphasising Long-Term Strategy

A number of studies in services marketing have shown that the unique characteristics of services should also be addressed when designing the marketing strategy for banking institutions (Zeithaml et al., 1985). This means that banking institutions need to adapt a different marketing mix which will correspond with the selected

specification of service. Booms et al. (1981) express this as a *services marketing mix* of seven elements - Product, Price, Place, Promotion, People, Physical evidence and Process. These elements are accepted by most academics and market practitioners as providing a framework for developing marketing programs for intangible banking services. It should be acknowledged that this adapted composition of services marketing mix needs to be revised and adjusted from time to time in response to changing market conditions and customers' expectations (Cowell, 1987, p.71). The core of any services marketing mix should be the needs and wants of most customers rather than the constraints imposed by the service organisation. The purpose of this section is to generate a conceptual framework in managing and marketing intangible banking services. A number of practices and strategies have been discussed at length in the literature on services marketing (Baker et al., 1988; Berry et al., 1991; Cowell, 1987; Croisdale-Appleby, 1985; Gronroos, 1990; Parasuraman, 1987; Stewart, 1991). Some of the more important strategies are :-

1. emphasising the design of facilities (office design and decor) to achieve specific marketing and/or image objectives,
2. monitoring the human behaviour in the services marketing system,
3. developing a differentiated corporate identity/institutional image.

These three basic strategies are a blending of three elements of the services marketing mix (People, Physical evidence and Process). These are the significant aspects in services marketing. However, it should be born in mind that all seven elements are equally important in contributing to an effective and efficient marketing strategy for banking services. Furthermore, these three commonly cited strategies are, in fact, an adaptation from traditional marketing, interactive marketing and internal marketing concepts. These three marketing concepts form the basic aspects of services marketing and are cited by many services marketing pioneers such as Berry (1981), Gronroos (1979), Parasuraman (1985), Shostack (1977), and Zeithaml (1988). Traditional marketing describes the normal work done by the organisation to

prepare the product, price, promotion and distribution (4Ps) to their customers. Interactive marketing describes the employee's skill and knowledge in handling customer interactions (Gronroos, 1979). Internal marketing describes the work done by the organisation to train and motivates its employees to work as a team in order to pursuit excellent service quality (Berry, 1981).

In principle, the suggested three strategies can be used to overcome most problems associated with banking services across all organisations regardless of their nature and sizes. They are applicable to state-owned banks or credit co-operatives such as credit unions and building societies. Each of these strategies is discussed below : -

2.3.1 The emphasising of the design of facilities to achieve specific marketing and/or image objectives

Services, by their nature, are essentially intangible but this should not exclude customers from knowing "what" they are buying and "why" they should buy, before making a purchase decision (Berry, 1991, p.93). The lack of pre-purchased information may indirectly influence the development of unrealistic and incongruent perceptions and expectations of service and the function of the organisation by the customer (Berry et al., 1991, p.93). Therefore, one possible strategy in managing intangible services is to assist the customer to have a better understanding of what they are buying and why they should buy that particular service. This can be achieved by manipulating the tangibles associated with the intangible services. These tangible clues cannot say anything but, they can create a desirable environment and an atmosphere in which the service is performed and, as a consequence, help in shaping the customer's perception of the service and the organisation.

The exterior physical appearance and internal outlay of a banking institution are significant factors in (1) developing a favourable institutional image, (2) producing positive customer perceptions about the service and its organisation, and

(3) encouraging appropriate behaviour in the system (Berry et al., 1991, p.95). Therefore, banking institutions should plan the physical attributes of the interior and exterior of the building with the thought of its effect on the customers and the ease and pleasantness of the working conditions of employees.

Broadly speaking, there are three groups of tangible evidence contributing to the specific marketing and/or image objectives which are controllable by banking institutions. They are : -

2.3.1.1 Physical structure

The physical structure of a building, includes the size, shape and the types of material used in its construction, the location, its suitability to fit in with the streetscape and still project its unique image and maintain its function as an outstanding structure are equally important.

2.3.1.2 Internal layout

The internal layout, such as, the arrangement of equipment, desks, fixtures and fittings, lighting, colour, the air conditioning and heating systems should be designed to give the desired atmosphere. These ambient and design factors can visually stimuli for producing positive customer perceptions and encouraging appropriate behaviour.

2.3.1.3 Facilitating and supporting services

Other factors, such as, the ease of parking and access, frontages, door and window design, the design of the bank card for facilitating ATM service, and even the quality and quantity of writing instruments placing in the bank lobby are also important. These services provide a means of service production and/or place for service

performance. They are part of the tangible element of intangible services. These tangible elements may be consumed during the process of service production therefore, their maintenance, repair and replacement are crucial in maintaining a desirable level of service quality.

All these factors combine to create a distinctive overall *personality* and *institutional image* for a banking institution and aim to convey the impression of reliable and responsive, assurance, empathy and efficiency. This impression is sufficient to influence the customer's assessment of service quality and its organisation. In view of this, this study will analyse the five determinants of customers' perceptions of service quality evaluation proposed by Zeithaml et al. (1988). The five determinants are : (1) tangibility, (2) reliability, (3) responsiveness, (4) assurance and (5) empathy. These five determinants describe major components of service quality and are widely reported in the services marketing research community. These will be considered in section 2.5.3.2.

In the banking and finance industry, there have been great changes in the office layout. Many banking institutions have changed from the traditional "closed-in" framework to an open plan. This change carries lots of messages not only in marketing but also in management. The key ones are (Baker et al., 1988, Cowell, 1987, p.237) : -

1. a planned environment and atmosphere that suit the target market and lead them toward purchase are highly desirable,
2. an attractive and distinctive office design contributes to service differentiation because it contributes to the formation of a personality and identity of a banking institution. "Personality" is the key differentiating feature in the highly competitive and undifferentiated banking services market,
3. a well-planned office outlay increases the productivity and quality of the working life of employees. This is not surprising, since employees spend most of their working hours in this environment and the aesthetics and functional aspects of

these facilities gradually influences the degree of job satisfaction and job performance. Most importantly, most employees view the physical setting as a symbol of management's concern for them and is a recognition of the individual in the organisation. Well managed, these clues communicate a high standard of service and workmanship both within and outside the organisation.

Physical evidence is an important element in facilitating the creation and maintenance of the image of a banking institution. However, banking institutions need to ensure that the physical evidence should be managed in such a way that it is consistent with both the customer's and the organisation's perceptions of what that *outcome* should be. Creating an ideal environment is not easy because many other factors also influence the impact of the environment such as the human component - employees and customers.

2.3.2 Human Component of the Physical Environment

The human component (i.e. customers and employees) in the service environment can produce either appropriate or evasive behaviour which eventually influences the perception and evaluation of the level of quality of the organisation (Berry et al., 1991, p.97). The undesirable performance of both employees and customers can undermine the effort that the organisation expends on marketing, therefore, bankers and marketers need to take appropriate action to minimise any negative impact upon the organisation.

2.3.2.1 Employees

Employees are important in all organisations because they are the providers of the organisation's service to customers. This is so particularly in those organisations where, in the absence of clues from physical products, the customer forms an

impression of the organisation from the number, the appearance and behaviour of the employees (Donnelly et al., 1985, p.230). The word "employees" refers to all staff irrespective of their function in the organisation.

Basically, all employees perform both production and marketing functions but, in a finance organisation, there may be a difference in the extent of each function. As an example, bank customers most often come in contact with the front line employees such as tellers and loan officers, but may occasionally also be in contact with other support employees : for instance, the receptionist, the telephone operator, the accountant, and the security staff. All these employees' job performances are weighted in the total perceptions about the service and its organisation by its customers. Bank marketers should not overlook the importance of the *perception* of the organisation because it is one of the major determinant in making a purchase decision (Lovelock, 1991, p.17).

Perception is a subjective evaluation which may vary from time to time. Customer perception may be changed from positive to negative after observing a branch manager shouting rudely at a teller ; or from negative to positive by visiting a credit union where the grounds and buildings are clean and well maintained, the interior decor is comfortable, the employees friendly and efficient or from listening to a friend who is full of praise for the quality of the service experience. Bankers and marketers should concentrate on how to influence the performance of employees to a consistently high standard.

2.3.2.2 Customers

Another factor which may influence the effort of marketing banking services is the performance of customers and their relationship with the organisation. The high level of production/consumption interaction in service indicates that customers actively take part in shaping the service offering. The performance of specific customers and other customers in the service environment contribute to the formation of the

perception of the service and its organisation (Berry et al., 1991, p.97). As an example, a group of rowdy teenagers in the lobby of a branch will result in a poor image of the branch management for allowing this nuisance behaviour on the premises. This perception will also reflect on the bank as an organisation.

The relationship between customers is also important in formulating the perception of a banking institution. Customers frequently communicate with each other about banking institutions and this word of mouth communication is powerful enough to turn favourable into unfavourable conception of the organisation. The example of a group of rowdy teenagers again illustrates the point. If a customer, for instance, feels threatened by this situation at the branch, it will not come as a surprise that he/she will tell another up to 10 or more people about his/her experience, dissatisfaction and disappointment in the bank's performance. Most importantly, it may affect the image of credibility, trust and reliability of the bank to the public. At this point, bank marketers have to think how to influence the performance of customers and the interactions between customers, especially during the production and consumption processes.

2.3.2.3 Marketing to Employees and Existing Customers

There are a number of ways in which a banking institution can both (1) maintain and improve the quality of employees' performance and (2) influence the behaviour of customers. Some of the measures which can be used are :-

1. internal marketing ;
2. careful attention to the selection and training of employees ;
3. the use of practices designed to obtain consistent behaviour ;
4. a complaints and suggestions system ;
5. ensuring consistent appearance ;
6. reducing the importance of personal contact ;
7. careful control through the service personnel audit.

These are only some of the major and more obvious measures that banking institutions can take. Overlapping occurs when new measures and practices are put into actual operation. Other possibilities can be considered where and when they are appropriate to the specific context. The following section considers the first four measures.

(1) *Internal marketing*

In order to accomplish the appropriate level of service quality and performance in keeping with the service organisation standards, bankers and marketers need to consider internal marketing. For most services, the service provider cannot be separated from the service. For instance, the secretary is a significant part of the secretarial service, and the typist is a significant part of the typing service. The quality of employees influences the quality of service which, in turn, influences the effectiveness of services marketing (Berry et al., 1991, p.151).

Berry (1980) defines "internal marketing" as applying the philosophy and practices of marketing to people who serve the external customers so that (1) the best possible people can be employed and retained and (2) they will do the best possible work. Gronroos (1990:225) refines the concept and argues that the overall objective of internal marketing has twofold : -

- a. to ensure that the employees are motivated for customer-oriented and service-minded performance and thus successfully fulfil their duties as non-marketing specialists in their interactive marketing tasks and
- b. to attract and retain qualified and good employees.

Gronroos (1990:223) goes so far as to state that "the internal market of employees is best motivated for service-mindedness and customer-oriented performance by an active, marketinglike approach, where a variety of activities are used internally in an active, marketinglike and co-ordinate way". Based on this,

banking institutions should view employees as "internal customers" and jobs as "internal products" which have to be well designed to better meet the needs of their employees (Lewis, 1989).

To achieve excellent service quality, a banking institution should upgrade its capability for satisfying the needs and wants of its internal customers before satisfying the needs and wants of its external one (Berry, 1980). The reason for this is that a successful banking institution must first sell the job to employees before it can sell its service to customers (Compton et al., 1987, p.7). It is less likely that a dissatisfied and untrained employee is able to deliver a consistent level of service quality. Banking institutions should invest in human resources by providing better and competitive recruiting, training, motivating and rewarding systems (Teas et al., 1991). The ultimate objective is to foster a team of well informed and enthusiastic staff who are committed to provide quality service by serving the needs of customers (Teas et al., 1991). Gaining a "service commitment" from employees is the essential element in all marketing and quality improvement programs. In line with this objective, the following points should be noted when a banking institution begins to plan or implement an internal marketing program.

(a) The *internal focus* of internal marketing has to be recognised and fully accepted by management. Gaining a commitment from top management is the essential element for all improving programs.

Employees more easily recognise their importance to the organisation when they are allowed to participate in the planning process of their working environment, the goals and scope of their work tasks, information and feedback channels, and/or external communication. When employees realise that they are able to involve themselves in improving "something" that is important to them, they will be more likely to commit themselves more closely to the organisation and the internal marketing strategy.

The concept of internal marketing is closely related to the employee-centred concept that emphasises delegating decision making and aids employees in satisfying their needs by creating a supportive work environment (Ivancevich et al., 1990, p.390). However, this concept may not be applicable to every individual. It should not be a cause for surprise that some employees prefer a high degree of dependency, a routine job and role submission. Job enrichment, job enlargement or even a higher degree of participation may not be appreciated by these employees. Decision-makers must first understand the needs and wants of all their target market, in this case, the employees. Then, design work tasks that attract, develop, motivate, and retain employees by becoming sensitive to their individual aspirations, attitudes and concerns (Berry et al., 1991, p.169).

Each individual is unique and decision makers should never make any blanket assumptions on the needs and wants of their employees. This philosophy of the rights and needs of an individual are applicable to both employees and customers.

(b) Internal marketing has to involve employees from the top to the bottom of the organisation and irrespective of whether they are front or back stage. Continuous support and active involvement from all employees are the essential elements for the development of a *service culture*. Any effort given by an employee is important and essential in the formation of a service oriented organisation. An internal marketing strategy should not only focus on customer contact employees but on all employees.

(c) The *external focus* of an internal marketing strategy and any internal marketing program should never be forgotten (Gronroos, 1990, p.235). Improving the working environment and tasks of the employees is certainly important, however, bankers and marketers still need to concern themselves with the interactive marketing abilities and the external marketing performance of the employees.

Financial institutions need to develop the capabilities and abilities of their employees to the full in performing work tasks. This can be achieved by approaches

that include (1) different modes of training and (2) development with the ultimate objective of improving the customer consciousness and service-mindedness of employees. These are the basic elements for achieving excellent service quality. Apparently, both the internal and external focuses are important and they should go hand-in-hand in any internal marketing strategy.

From the above analyses, it has been shown that the concept of internal marketing is important because its employees perform the services that are on offer. Service in this instance, is seen as a performance but it is often difficult to separate the performance from the service provider. There is also a high correlation between people's quality and service quality, and this correlation shows that investing in people's quality means indirectly investing in product quality (Berry et al., 1991, p.151). Banking institutions, therefore, should not expect to compete only on the bases of price and location, convenience without having a team of first-rate employees. It should be born in mind that only first-rate employees can provide the credibility, competence, and care to customers that builds customer relationships which, in turn, builds customers' loyalty. Therefore, there is a need to broaden the perspective of marketing so that internal and external marketing becomes equally important in order to achieve excellent service quality and the customer loyalty desired.

(2) Careful attention to the selection and training of employees

It is clearly important that all employees must be carefully selected and trained. Hiring and then training the best possible people to perform the service is a key factor in services marketing. Berry et al (1991:152) stated that one of the principal causes of poor service quality is hiring the wrong people. Placing employees in the wrong position for their skills and with inadequate training are other principal causes of poor service quality. Therefore, a well-planned recruitment, selection, placement, training and development program is absolutely essential for all banking institutions. This is

not only the responsibility of the Human Resources Department but the organisation as a whole. If the program is effective, it will increase the chance of "doing the thing right first time". If not, at least to "do the thing absolutely right the second time". Some of the points that banking institutions should take into account when designing and implementing the program for recruitment, selection, placement, training and development are discussed below.

(a) Recruitment

In the recruitment stage, banking institutions should not overlook the importance of providing relevant and accurate information to applicants. The organisation should also check on the attitudes and preferences of each applicant to ensure a right match of the job description and the individual's characteristics. If possible, banking institutions should give prospective employees full information about the job and those aspects of the organisation that affect the individual (Ivancevich et al., 1990, p.598). They should also be provided with factual information about any issues relating to the particular job and the organisation such as pay and promotion policies and practices. The mission statement may also be added. The ultimate objective is to give an accurate expectation about the job and the organisation.

(b) Selection and placement

In the selection and placement stages, banking institutions have to choose the right people and place them in the right position. With the assistance from line managers, the Human Resources Department should list all the essential and substantial criteria prior to any selection and placement processes. The objective of having such criteria is to minimise any subjective evaluation in the selection and placement processes (Assael, 1990, p.516).

(c) Training and development

A well-designed training and developing program is of benefit to both employees and the organisation. The willingness of employees to deliver quality service is important, however, the capability and abilities of employees are crucial in pursuing excellent service quality. An effective training and development program can (Ivancevich et al., 1990, p.599) : -

- i. develop employee's skills concerning how various tasks are to be performed,
- ii. develop specifically the communication and service skills of employees, and
- iii. provide frequent feedback about progress in the acquisition of the necessary skills.

Unfortunately, not many banking institutions really conduct an effective training and developing program (Berry et al., 1991, p.159). Typically, some employees receive training which is either too little, too late, or not the right kind to suit their needs. Other employees receive adequate technical skills training, but do not receive enough background knowledge, only learning "how" but not "why". Other programs put employees through a specific training program and then considering them as "well trained" and "specialist" staff (Berry et al., 1991, p.159).

One of the possible causes for having inadequate and/or inappropriate training is management's perception of training as a destination not a "journey". Training is a long term human resources investment but it is rewarding and worthwhile both for the organisation and employees. As mentioned above, it is only by training employees that knowledge and attitude requirements for good service can be achieved. As an example, if top management, middle management, and support and customer contact personnel are expected to be motivated for service-oriented thinking and behaviour, they ought to know how the organisation operates, what makes up the customer relationships, what their role in the total operation and customer relationship is, and what an individual is expected to do (Gronroos, 1990, p.252). A person who does not understand what is going on and why cannot be expected to be motivated to do a good job.

Many bankers view some employees as "unwilling to perform" or "unmotivated" when, in fact they are "incapable" to perform. Similarly, some employees are unlikely to be motivated to perform service or unwilling to perform because they do not feel competent and confident to perform. The perceptions of "incapable to perform", "incompetent" and "lacking confidence to perform" of subordinates are still existing in many banking institutions. One effective solution is to provide continuous training and development to all employees. It has been found that learning is a confidence builder, a motivating force, and a source of self-esteem (Berry et al., 1991, p.159). Training should be viewed as a never ending process in implementation.

(3) *The use of practices designed to obtain consistent behaviour*

One of the problems faced by most banking institutions is the achieving of consistency in behaviour of employees. The intensive involvement of human elements in the production of a service leads to a high degree of variability in the outcome of the service (Donnelly et al. 1985, p.140). Customers often experience this variability especially during the consumption process.

Achieving an even and consistently perceived quality of service produced and delivered to customers is an important goal of many banking institutions (Gronroos, 1990, p.30). One of the possible solutions that banking institutions can try to ensure this consistent behaviour is to establish set procedures for some of their services, however, there is the danger that such practices can become too standardised and rigid (Carman et al., 1989; Lee, 1989). Two of the potential drawbacks for standardisation are : - (1) inflexibility in decision making especially in the front line operation, and (2) elimination of the opportunities for customisation (Carman et al., 1989). Banking institutions have to strike a balance between too much rigidity in their systems and too much flexibility. The aim should be to set procedures that are flexible enough to accommodate the wide variety of customers' needs.

A less direct approach to obtain consistent behaviour is to train employees at all levels in the hierarchy emphasising on the (1) expected and appropriate manner for dealing with customers and (2) knowledge of the current range of services provided by the organisation. The rationales in either method for setting procedures and conducting training are identical. One of the main roles of the Human Resources Manager is to assist banking institutions to (1) develop norms and standards for employees behaviour and (2) establish evaluation system to ensure the adherence to those pre-determined standards (Cowell, 1987, p.215).

(4) *A Complaints and Suggestions System*

No organisation can or does survive for long without "knowing" and "satisfying" both their internal and external customers. One of the possible ways of "knowing" the customers is to set up a formal complaints system that allows people to air their grievances. To be most effective, banking institutions need to make their customer aware of this complaints system through wide publicity. This is an essential first step in building a reputation for excellent service quality (Berry et al., 1991, p.43).

Customer's complaints can be a very useful form of feedback and research, especially if an on-going complaint-handling system is established for soliciting, tracking, and responding to them (Berry et al., 1989, p.118). It can be a valuable source of ideas for service, system and organisational improvement. Unfortunately, many banking institutions fail to provide enough attention to establishing an easy and simple mechanism to ensure that customers' problems and complaints get to be heard and acted upon.

Institutionalising a proactive and continuous complaint system is far more important than commonly thought. Customers who are not given an opportunity to complain might reduce their businesses and do damage to the organisation through the word of mouth communication on existing and potential customers (Cowell, 1987, p.215). The reduction of repeated businesses is important, however, damaging

the reputation of credibility and reliability of an organisation is even more important. The Australian Government recognises this and has set up an independent body, the Commonwealth Ombudsman, to deal with complaints about government departments. Similarly, the Australian Banking Industry Ombudsman Ltd. was set up on 18 June 1990 to help individual bank customers and their banks resolve disputes about banking services. Without such systems, an organisation is more likely to ignore or be unaware that certain policies, practices, or staff are unnecessarily damaging its service reputation. A comprehensive complaint system is a realistic and appreciated way of developing and maintaining excellent service quality.

2.3.3 Corporate Identity

The intangibility of services challenges the bank marketers to use all possible means to establish a distinctive and compelling corporate identity. Kennedy (1977) affirms that the total corporate identity is derived from the distinction between a company's visual identity such as letter heads, corporate symbols, logos, colours and anything which can identify the organisation visually. Olins (1989) adds that banking institutions can use corporate identity to identify itself, its brand products, and constituent companies. Accordingly, a corporate "identity" is a projection by an organisation which provides conscious cues in the minds of the audience and adds to the formation of the total image. Image, in turn, may contribute to the decisions of a consumer on whether or not to do business with that organisation or even realise a branch of an organisation is available to do business with (Abratt, 1989). Therefore, a corporate identity is a strategic issue with a symbolic value.

A corporate identity is a valuable asset for any organisation. Some of the reasons are (Assael, 1990, p.475; Berry et al., 1991, p.99; Gronroos, 1990, p.17): -

1. It is an imaginative auxiliary to goods and service ;
2. It is a unifying company "symbol" meant to represent something in both the service and its organisation ;

3. It can possibly add bonus value to the offering. A corporate identity is in a sense equivalent to adding something without real substance to the offering in order to achieve a competitive advantage ;
4. It provides a visual "vehicle" for many forms of promotion and publicity which can be help in bolstering the meanings and benefits of the offering ;
5. It can be used for business differentiation and a perceived "symbol" of the standard of the quality on offer.

Bank marketers should take whatever competitive advantages an organisation might have and communicate these differences cohesively, consistently, and strikingly.

In the literature on marketing there have been many discussions on possible methods of developing a corporate identity. Colours, symbols, logo, graphics of communication materials, slogans and employee's uniforms have all be considered (Berry et al., 1988). Another avenue which is less cited but widely adopted by banking institutions is the credit card.

The credit card is a tangible representation of the "credit" service but it is not the service. A credit card acts as a means of business differentiation, positioning, attracting and retaining customers. The existence of different "brands" of credit cards in the retail banking market means that banking institutions attempt to project a specific identity and image to the public. As an example, the Diners Club, the American Express (AE), the VISA, the Mastercard and the Bankcard are physically different, with different images, customer profiles, target markets, and brand names. Some card issuers are keen on gaining a larger market share and issue different types of credit card to capture different market segments. The issuing of the AE(Gold) and AE(Green) by the American Express is a typical example. A comparison of the AE(Gold) and AE(Green) shows that the gold card holder can access a larger range of banking services such as an agreed upon amount of unsecured overdraft, larger cash advances, free banking planning consultations, and travel accident insurance. These

services are not available to the same extent to AE(Green). The "identity" projected and "image" perceived by the public between the AE(Gold) and AE(Green) are different. The identity and image devised from the credit card will influence the formation of the identity and image of the organisation. For better or worse, the overall perceived "personality" of the organisation is the sum of the total characteristics of the organisation.

Corporate identity and image development are not merely "cosmetic tinkering". They provide a vehicle, made up of many parts, whereby an organisation can articulate its mission and values to many audiences especially employees, customers, shareholders and the banking community. Banking institutions should have a well-managed program to communicate these "messages" to its targeted audience. However, it should be acknowledged that the presence of a corporate identity has only a psychological advantage of focusing the minds of its audience on the quality of service. The crucial importance of quality service is to provide concrete evidence to its customers on a consistent basis.

Section Summary

This section presented an expanded marketing mix framework of seven elements for services. This revised framework provides a conception for bank marketers to create their unique marketing policies and programs tailored for a specific context. Bank marketers still need to undertake market research about their target markets for which their respective marketing mixes are shaped, and, wherever possible, analyse the characteristics of each target segment. Unfortunately, most banking institutions are defensive in searching out the ultimate needs and wants of their customers but only those which are truly "proactive", in respect to quality, will endure in such a competitive environment.

This view of the banking services, the redefinition of the customer, and the revaluation of the role of the banking institution are the starting points for redefining

the business. Bankers and marketers may have to reconsider all the suggested concepts and implement them in their banking businesses. Credit unions need to embrace the concepts more closely because meeting their members' needs and continuous improvement in services are essentially their principle missions. Continuing the marketing and planning themes of successful credit unions, the following section gives a historical appraisal of the achievement of the Australian credit unions movement.

2.4 The Australian Credit Union System : An Overview

The following analysis draws upon information from (1) the material of a training course documented by the Association of New South Wales Credit Unions Ltd (1991) "What is a Credit Union ? ", (2) the working paper prepared by the Credit Union Services Corporation (Australia) Ltd (1992) "The Credit Union System", (3) the submission by the Australian Federation of Credit Unions Ltd to "The Banking Industry Inquiry" by the House of Representatives Standing Committee on Finance and Public Administration (January 1991) and (4) the press release from the International Credit Union Day, October 20, 1988.

A review of the literature on credit unions has shown that scholars, marketers and management practitioners displayed very little interest in the Australian Credit Unions Movement until the late 1960s, though the first registered credit union in Australia, the Co-operative Credit Bank of Victoria, was established in 1905 (Crapp et al., 1985, p.19). The obvious reason for this early lack of attention has been the comparatively minor role of credit unions in the Australian banking system. Before 1969, the total assets of the Australian credit unions movement was less than AUD\$100 million and membership totalled only approximately a quarter of a million (Runcie, 1969). This represented about 1 percent of the total assets in the banking sector at this time. Moreover, credit unions (CUs) played almost no role in the formal money and capital markets, as they focused on lending and borrowing from

their own members. This position changed rapidly with the emergence of an industry association in 1966.

The Australian Federation of Credit Unions Ltd. (AFCUL), formed in 1966, acted as a coordinator for the Australian Credit Unions Movement. Since then, the AFCUL has been actively engaged in upgrading the the service performance of individual CUs through freer flow of information and the provision to accessing surplus funds of other co-operative organisations (Blackert, 1979). There has also been an attempt by the AFCUL to coordinate some operational activities between AFCUL members in an effort to minimise any unnecessary competition between individual credit unions and, most importantly, to ensure their combined relative competitive position in the banking sector, at least so far as the Australian retail banking was concerned. Its achievements can be seen by the remarkable improvement in the performance of the industry, in such a relatively short period. In June 1992, the Australian credit unions movement had total assets of AUD\$9.92 billion and a membership of 2.81 million. The figure of AUD\$9.92 showed approximately 100 times increase in total assets over 23 years.

The credit union industry is characterised by a large number of relatively small co-operatives that frequently face the management and marketing challenges of high unit cost, low accessibility, and inefficient usage of institutional resources, compared with the other banking intermediaries (Moore et al., 1988, p.48). Many service quality experts, such as Deming (1982), Berry (1989), Gronroos (1983a) and Lovelock (1991) have proposed in their work on quality management that most these internal cost structures and institutional efficiency problems could be minimised through continuous improvement of their functions. It will be shown in this study that the most beneficial approach for CUs to increase their institutional effectiveness and cut their operational costs are to continuously strive for improvement in the quality of their banking products/services on offer. The improvements advocated were considered to have universal application for contemporary banking institutions.

The Institutional Characteristics of Credit Unions

A credit union (CU) is an independent non-profit financial co-operative formed, owned and democratically operated by people coming together on the basis of a common bond (Crapp et al., 1985, p.1; Moore et al., 1988, p.46; Ryan, 1987; Williams, 1992).

The primary function of a CU is to encourage saving and to provide loans and other banking services at the best possible rate to its members. A CU is formed when any group of people feels they have an unmet banking need and see a CU as a means of meeting this need. They join together for the purpose of encouraging savings, using collective monies to make loans and provide other services on a co-operative basis to members (Interim Report of the Committee of Inquiry, 1980, p.160). Further funds lent by the members to the CU, are handled in the form of deposits. There is no government guarantee of the safety of members' funds in Australia at present (1993), but, there is a "Credit Union Saving Reserve Fund", established by the NSW Credit Union Act (1969) No.8 in 1978, to protect members' deposits and shares in all New South Wales credit unions. If necessary, the Fund will provide financial assistance to those union members who are unable to satisfy the lawful demand for withdrawal of funds from members' deposits or shares (Interim Report of the Committee of Inquiry, 1980, p.281; Perkins, 1989, p.75). The establishment of this fund has strengthened the image of CUs in the State of NSW as a safe repository for members' savings (Kelly, 1982). It is a reactive strategy to build credibility, trust and good faith within the industry which are the essential elements in building members' loyalty and continuous support (Thomas, 1987).

Co-operation, economic self-reliance, and social responsibility have been the key factors in the credit union philosophy and its practice since the mid-19th Century (Press release from the International Credit Union Day, Oct 20 1988). The allows for the sharing of the benefit of combined thrift amongst members through co-operative saving and lending in a non-profit arrangement (Langdon, 1980). This

credit union philosophy is deeply entrenched in Australia and it seems unlikely, in Australia, that CUs would compete or undercut the service fees charged by any individual CU in order to gain further businesses. Australian credit unions have always incorporated strategic planning into their operations, and are continually seeking for innovative ideas for improving their existing products/services (Cooke et al., 1989). This unique philosophy makes CUs very different from trading banks and other Non Bank Financial Institutions in respect to their ownership and institutional missions. "Total member satisfaction" is the overriding mission of credit unions. Credit Unions and their services organisations are (Davis, 1988, p.79; Knight et al., 1989, pp.387-388) : -

1. owned completely by their members ;
2. insistent on the adherence philosophical and social aspects of their activities and
3. a "not-for-profit" organisation.

Credit unions, as non-profit organisations, focus on their members' well-being and provide services in the most equitable and responsible way (Crapp et al., 1985, p.1; Ryan, 1987). Specifically, credit unions aim at providing low cost banking services and advice to any bond-fide resident of Australia who resides or works within its bonded area regardless of income levels or employment status (Moore et al., 1988, p.47; Schmidt et al., 1991; Williams, 1986; Williams, 1992). Community groups are also eligible to join and share the benefits of services on offer. Membership is generally divided into "corporate" and "private". An organisation in the bonded area can register as a corporate member. Employees of the corporate membership group are also entitled to use the free pay-roll deduction service from the associated CU. All family members, including a member's spouse, children and immediate family are eligible to join as private members. Apart from this, all revenues after required reserves, expenses, and retained earnings are wholly returned to its members by way of improved services, low cost loans, and the provision of

other advisory services such as legal, taxation, retirement and investment (Crapp et al., 1985, pp.162-163; Williams, 1986).

In an era of large banks and building societies, the emergency of finance companies and cash management and property trusts, CUs need to find a way to generate funds at an affordable cost. Some CUs solve this problem by having two classes of membership - full membership and associate member (Dunstan, 1980). Under this policy, all individuals are welcome to deposit funds even if they do not have any stated common "bond" with the association. However, not all members can enjoy the full range of services, especially that of borrowing. In most states in Australia, CUs are restricted to lending to its members and the maximum permissible size of the loan is governed by State legislation (Davis, 1988, p.101). Therefore, "associate members" are limited to depositing funds only.

Many people prefer to deposit their money in CUs rather than other profit-seeking competitors because of the comparatively higher interest rates. It is traditional, and a strength of CUs, to offer high rates on deposits and the lowest loan rates. Offering competitive interest rates is one of the effective pricing and promotion strategies to overcome the inconveniences to members caused by the relatively small branch network (Belonax et al., 1990). Apart from this, the industry has implemented an effectual distribution strategy that provides a nation-wide ATM network. A joint venture between the majority of CUs and leading banks in 1985 in ATM service was a bench mark in the history of the Australian banking industry which significantly improved on the former operational limitations and geographical disadvantages not only for CUs but also other banking institutions in the agreement (Moore et al., 1988, p.48). As a result, CUs members are now able to access payment facilities at other CUs, ANZ, NAB, State Bank of Victoria and the Cashcard Network. This significantly increases the accessibility and flexibility of the banking services on offer.

Membership of a CU is achieved by the purchase of non-transferable (but redeemable) shares in the CU for a nominal sum (Davis, 1988; Dunstan, 1980).

Generally, no dividend is paid on shares and all members hold an equal number. Each member is entitled to one vote, regardless of status or the amount of funds deposited. An individual member has the right to call, attend and participate in annual or specific general meetings (Crapp et al., 1985, p.51). Directors, who often serve in an honorary capacity, are elected by members on a rotating basis and, through this process, have a voice in shaping policies for their own CU. These democratic policies ensure that every member has an equal chance to participate in managerial policy making and control. The traditional management prerogative in determining corporate policies and strategies is reduced.

Approximately 20 percent of Australians have a direct link with the Credit Unions Movement through their membership of one of the 348 Australian Credit Unions (June 1992). The number of credit unions expanded from 342 (1965), 611 (1970) to 738 (1975) (Davis, 1988). Since then, the number of CUs has decreased from 560 (1983), 373 (1989) and 348 (1992) which reflects, in a large part, a number of amalgamations of CUs which took place between the 1970s and 1980s (Davis, 1988; Moore et al., 1988, p.48). This reduction in the number of CUs was not an indicator of a decline of the importance and soundness of the industry within the Australian banking sector, rather, it was a "reactive" strategy for CUs to strengthen their competitive position through rationalisation of available resources. The remarkable performance of the industry in 1990 illustrates the success of this strategy. A comprehensive survey conducted by KPMG Peat Marwick (1992) shows that Australian Credit Unions increased their total assets by 15.2% and the net return on assets (ROA) by 12.8% in 1990 (Ullmer et al., 1992). For the banking sector, there was only a 11.7% increase in total assets and only 6.4% increase in ROA in the same period.

Credit unions are independent and autonomous bodies, each of which have developed a "unique" identity, which is a direct reflection of the membership they serve. In the 1980s, they had : -

1. developed and been made so attractive to the retail banking customer that other banking institutions expressed interest in sharing their market. Compared with the banks' customers, CU members are generally young, have higher incomes, are highly educated, more likely to have white collar occupations and consist of two-income households. They are also more likely to own stocks, bonds and homes (Mason et al., 1984). This is a profile of the affluent consumer segment that all banking institutions are eager to capture;
2. developed, at no cost to the public expense, their own deposit protection system wherever Governments have been prepared to back them with legislation. As discussed previously, the establishment of the "Credit Union Savings Reserve Fund" protects members' deposits and shares in all N.S.W. Credit Unions;
- 3 been the leader in innovative loans, deposits and investment products.

The intensive competition from larger banking intermediaries has encouraged most CUs to diversity in the range of banking products and/or services available (Moore et al., 1988, p.47). Apart from the conventional savings deposit services and personal loans, some CUs also offer, for instance, superannuation products and services, direct crediting of payment and remote access banking to their members. Other auxiliary services such as investment counselling, insurance, and travellers' cheques are also on offer. This diversification of services illustrates that most CUs are actively responding to the changing needs of their members and the raising of consumerism. In line with their co-operative nature, CUs are highly initiative in developing and promoting new products and services so as to best serve their members. This consistent delivery of "quality service" has contributed to the rapid grow of the Australian Credit Unions Movement since the 1980s.

The credit union movement's philosophy of "co-operative" differs notably from the organisational culture of profit-oriented competitors. This philosophical approach has given CUs a unique identity in the banking community. The slogan of "Not for profit, not for charity, but for service" illustrates the point (Callaghan, 1982).

This dominant value of CUs leads them to price their banking services at the lowest possible and most affordable cost. This is in contrast to most profit-oriented competitors which frequently price both their services at the highest possible cost the customer will bear. The ability of CUs to provide such a wide range of services to their members depends largely upon the "co-operative and shared" approach which forms the basis of all credit union operations. Individual CU, for instance, is unlikely to be able to fund the enormous capital investment to set up an EFT network, or provide the necessary infra-structure for the cheque clearing facilities. The provision of these functional services requires a high degree of cohesiveness between CUs and energetic coordination. The work of thousands of volunteers and experienced CEOs who take an active part in managing CUs as well as the efforts of the Australian Federation of Credit Unions Ltd., Credit Union Services Corporation (Australia) Ltd. and other associated organisations should not be understated.

Section Summary

This section discussed one of the most innovative and unique ideas which arose at the beginning this century : the idea of a community-based banking institution which became known as a Co-operative Credit Union. One unique aspect of credit unions is that they never take income status into account when providing low-cost banking products and services to their members. As such, they represent a constructive response to inequities in other profit-seeking institutions, where income status is a determining factor to obtaining certain banking services, especially unsecured loans. Another unique aspect of credit unions is that they involve members in participating in managerial policy making and control, unlike other banking institutions. These unique aspects provide direction for credit unions in operating their banking services so as to provide excellent and effective banking services with convenience to their members. The delivery of excellent member services is not forced but is a natural outcome of its operations and its services providers. The essential element of this

built-in process is the *commitment* from both the credit union and all its employees to its members.

The system based on the Australian credit union and that of American retail banking is similar in that both operate essentially on a regional basis and have a smaller market share. These similarities of institutional characteristic and scope of business, make it appropriate to compare the results of the two American banks in the American study with the Illawarra Credit Union, NSW.

2.5 Quality Through the TQM Movement

Quality is a relative concept, and greatly dependent on immediate economic conditions. For example, whenever there is an excess of money pursuing a shortage of products on which to spend it, quality may become of secondary importance to the availability of the scarce resources. The word "products" refers to both physical products and invisible services unless stated otherwise. The reason for this is that they are both "means" of satisfying needs and fulfilling the requirements of a customer, the only difference is in appearance.

In today's economy, a shortage of products is not permitted to exist for very long. Internal market forces, in the form of entrepreneurial capitalism, respond deliberately to this imbalance which is redressed, when there is an abundance of products once again, able to absorb the excess money in the economy (Price, 1990, p.7). This imbalance can also occur in the opposite direction when an excess of products swells the market, and there are many brands of the same commodity competing for the available spending power. But in a "healthy" economy, supply and demand of products and money are usually in balance when they are measured over longer time periods.

When products are scarce, quality is less important to the most consumer. But when products are plentiful, quality inevitably becomes the primary purchasing determinant while the other considerations remain constant (Cowell, 1987, p.159;

Price, 1986, p.29). This economic context induces the preferential change of most consumers so that they focus more on quality rather than the price of a product. This shift of preferential pattern forms an energetic driving force to the change of the adopted marketing mix of most progressive organisations (Berry et al., 1989, p.7). For the reasons of defence and survival, these organisations strive to continuously provide excellent quality of products with the aim of retaining current customers and attracting new ones (Juran, 1974, p.2; Mortiboys, 1986, p.15). These CEOs believe that it is the quality of a product, not the price, which keeps the business running smoothly and profitability. It is not denied that price is an effective arbitrator, but price wars are too costly for all the combatants to support for any length of time. Therefore, it can be concluded that a quality strategy is synonymous with a long term profit strategy.

In today's economy, the main task of the marketing and advertising agencies is to promote a product which people may not really need at the time. They apply various tactics to convince potential customers that they have an imperative "need" of these products. This is a creation of primary "want" in the market. Marketers and advertisers frequently use the quality issue of a product to stimulate the consumer's purchasing intention and behaviour in order to manipulate his/her buying decision. Quality is viewed as the most important non-price attribute in differentiating between competitive products (Gray et al., 1992, p.61). A product needs to differentiate itself in some way from its competitors in order to attract awareness and spark interest to target customers. This may be, for example, in the form of the design, package, or size of the product. Customers need something distinctive about an individual product so as to develop and retain a conspicuous image, especially in such an abundance of products stage of economy.

Quality is not necessarily synonymous with grade. As an example, it is accepted that the purchase of a family station wagon, in the medium price range, does not have the quality of a Roll-Royce, but it is expected to do its job and satisfy the purchaser's needs. If it does, then, the station wagon is thought to be a "quality"

product of its price range and likely to result in a high level of customer expectations. The level of customer satisfaction is greatly dependent on the capability of the totality of features and characteristics of the vehicle in meeting a customer's legitimate expectation (Bell, 1990, p.572; Mortiboys, 1986, p.14). Therefore, it can be stated that quality is synonymous with satisfying a customer's needs and expectations at a specific point of time.

Total Quality Management (TQM) or Total Quality Control (TQC) "is a philosophy and methodology for the management of all aspects of an organisation's activities to maximise that organisation's competitiveness and long-term profitability. It does this by eliminating all waste of resources of money, materials, time, human skills and creativity" (Flanagan, 1990). The focus is on improving "how" work gets done (the methods) instead of simply "what" is done (the results) (Scholtes, 1988, pp.1-2). TQM is process-oriented rather than result-oriented with an emphasis on continuous improving the entire process of planning, production, delivery and consumption of all resources involved (Fisher, 1992).

The primary objective of TQM is to produce and deliver products which satisfy the customer's expectations without wastage or rework. To do the thing right the first time is the aim of quality management. This corporate state of mind succeeds only when both the management and lower level employees are willing to change, and discard outdated management and work methods in order to satisfying the needs of target customers. This change of mindset is far more complex than other change programs because at the heart of TQM is the concept of intrinsic motivation. This intrinsic motivation is an essential substance in the development and maintenance of the TQM philosophy which is crucial in the success of a TQM implementation, This intrinsic motivation is synonymous with commitment and is the foundation of an effective TQM initiative.

2.5.1 Total Quality Movement

It is generally acknowledged that the economic development of Japan is a "miracle". In the 1950s, it was unthinkable that Japan could become a manufacturing superpower in such a short time after World War II. Unthinkable or not, it did occur. This was due in part to an American statistic and quality management expert, Edwards W. Deming, who at this time (1950) introduced his concept of Total Quality Management to the Japanese Management. Initially, Deming launched his ideas of TQM in America but his ideas were largely rejected because most American industrialists preferred to stay with the traditional manufacturing practice of making products and then inspecting them. Deming's approach was opposite to this. However, Japanese industrialists eagerly adopted his TQM concept and this is thought to have contributed to the rapid development of its economy. Some of these ideas were (Scholters, 1988, p.1-3 ; Dale et al, 1990, p.7-8) : -

1. organisations should ascertain what their customers require, improve the product design and production processes until a first class quality product is produced,
2. organisations should not inspect the product after the manufacturing event, instead, preventative quality control should be used during the manufacturing cycle,
3. the product should be still considered in the development process even when it is in the hands of the customers,
4. quality management and improvement is the responsibility of all the organisations' employees ; top management must adopt the new religion of quality, take the lead for improvement and be involved in all stage of the program.

The Japanese adopted Deming's philosophy and techniques of TQM and then adapted, and thereafter modified them to suit the Japanese social and cultural context.

This can be shown by the many works and ideas of a number of Japanese quality experts published in the 1980s, for instance, Imai (1986), Ishikawa (1985), Nemoto (1987), Shingeo (1986) and Taguchi (1986). From this point in time it became noticeable that Japan had begun to foster its own unique version of a quality management culture. They defined quality as "uniformity around the target and their goal as continual improvement towards perfection" (Dale et al., 1990, p.11).

This writer experienced working in a Japanese Bank in Hong Kong in 1991, where Japanese managers allocated responsibility for quality management amongst all levels of employees but to different degrees. The base level of employees were primarily responsible for maintaining the system, although they had some responsibility for improving it. Middle level managers did less maintenance work and concentrated more on improving the system. The emphasis for top management was on breakthrough. There was a clear division of responsibility, though teamwork was emphasised throughout the organisation. This is a typical example of the management practice of most Japanese manufacturing and servicing organisations.

Deming's thesis (1982) was that quality improves productivity and competitive position of an organisation regardless of the size and nature of the business. His aim is to improve quality and productivity, and thus ensure the long term survival of the organisation and improve its competitive position in the marketplace. Most importantly, Deming expects the top management of organisations to "change", to develop a partnership with all employees and to manage quality with direct statistical measures ignoring the cost of quality measures (Dale et al., 1990, p.8). His ideas are now widely supported by academics and marketing practitioners, for instance, Crosby (1979), Feigenbaum (1983), Juran (1988) and Ishikawa (1985).

At first sight, the total quality drive appears to be more applicable within the manufacturing industry than the service sector because resources, work achievement and performance are relatively easy to measure (Atkinson et al., 1988, p.171). This is now considered a narrow view of TQM (Burke, 1986, p.15; Atkinson et al., 1988, p.171). For example, the current concept of TQM is much more than the application

of statistical methods for processing and the solution to final product problems. It also deals with the creation of cultural change in the way people think and the restructuring of management methods (Atkinson et al., 1988, p.171). It is a very powerful tool for curing most corporate quality problems, most importantly, it can assist in fostering a positive organisational culture and promoting organisational effectiveness. Therefore, the concept and the underlying principles of quality management can be applied both in manufacturing and services settings (Burke, 1986, p.15).

2.5.2 Emerging Concern for Service Quality

In contrast to product quality, the interest in service quality is of recent origin. A review of the literature on strategic management and services marketing show that the concept of service quality was noticeably emerged in America in the late 1970s. It has also been found that much of the conceptual development relating to services quality has concentrated specifically upon the customer. It has pinpointed the vital importance of satisfying customer needs and expectations as the core of the corporate philosophy of TQM organisations (Albrecht, 1988; Berry, 1980; Gronroos, 1983; Gummesson, 1991; Lovelock, 1991; Parasuraman, 1985; Shostack, 1977; Zeithaml 1990). It is worth noting that, in terms of achieving customer satisfaction, there is no difference in the underlying principles of managing quality between physical products and invisible services. In both cases, the management of quality means simply the providing of "features and/or characteristics" which satisfy the customers' needs and meet their expectations. This shift of meaning greatly extends the scope of the quality concepts from the "classic" TQM as previously discussed, and to this end, it is useful to list in chronological order of the changes in definition of quality so as to gain a more comprehensive view of the total quality movement.

At one time the word "quality" was defined as : -

- "the composite product characteristics of engineering and manufacture that determine the degree to which the product in use will meet the expectations of the customer" (Feigenbaum, 1961, p.13).
- "fitness for use" (Juran, 1974, p.2).
- "conformance to requirements" (Crosby, 1979, p.17).
- "predictable degree of uniformity and dependability at low cost and suited to the market" (Deming, 1982).
- "a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis" (Lewis et al., 1983).
- "a comparison between expectations and performance" (Parasuraman et al., 1985).
- "the degree of conformance of all of the relevant features and characteristics of the service to all of the aspects of the customer's need, limited by the price and delivery he/she will accept" (Grocock, 1986, p.370).
- "meeting the customer requirements" (Oakland, 1989).
- "meeting or exceeding what customers expected from the service" (Zeithaml et al., 1990, p.18).

Quality was once thought of as a "conformance to an organisation's specification" without any input by the customers. It has now been questioned whether these "specifications" could exactly and explicitly match the unique needs and expectations of a target customer. If there is a mismatch, then a lower level of customer satisfaction and perceived quality will most likely be the result (Berry et al., 1989, p.26). This potential incongruence of operational definition of quality has led to the further development of "meeting the customers' expectations" and must now be included as an essential element. However, this may still be insufficient.

Quality of a product is both reality and perception. Many researchers and market practitioners believe that perceived quality is the consumer's judgement on an

entity's overall excellence or superiority rather than an individual encounter (Gronroos, 1982; Lewis et al., 1983; Parasuraman et al., 1985; Zeithaml, 1987). Additionally, it is a form of attitude and results from a comparison of expectations with perceptions of performance. Quality evaluation involves both the processes of delivery and the outcome of a product. Delivery of quality products means conforming to customer expectations on a consistent and continuous basis. It is a subjective measurement. This development of quality concept enriches its operational definitions by adding the essential element of "achieving the customer's perceived quality needs and consistently meeting or exceeding the customer's desires". The suggested definitions are complicated, but then in practice, quality is a complicated matter. To sum up quality is:-

- giving the customer "what" he/she wants today,
- performance as perceived by the customer. It is measured relative to the competitors and balanced against price to provide "value" (DeSouza, 1989),
- at a price and delivery that a customer is willing to pay (Grocock, 1986, p.370 ; Gummeson, 1988),
- at a cost that a product/service supplier can contain,
- not an absolute concept and it is not easily articulated by consumers (Morgan, 1992). Only the customer can assess the quality of service and perceives service in his own terms,
- a function of customer satisfaction. Customer satisfaction/dissatisfaction (CS/D) typically is modelled as a function of disconfirmation arising from discrepancies between prior expectations and actual performance (Bolton et al., 1991, p.540)

Expressed in another way "quality" is a *matching* of what a "buyer" wants with what the "seller" is able to produce and deliver. Service quality is a measure of how well the delivered service level consistently matches the customer's expectations. It is a relationship between expectations and fulfilment. Any non-fulfillment of these expectations will result a lower level of customer satisfaction. In achieving excellent

service quality, services marketers must aim to deliver service at or above the customer's expectation, and deliver on a consistent and continuous basis. This is critical in achieving the outcomes of satisfied customers and developing a long term relationship.

Berry, Parasuraman & Zeithaml contributed much in the area of service quality by developing the Service Quality Model (Figures 2-2, 2-3) and the SERVQUAL instrument. The following section is an appraisal of their concepts and achievements.

2.5.3 A Multi Phase Research : Development of the SERVQUAL Instrument

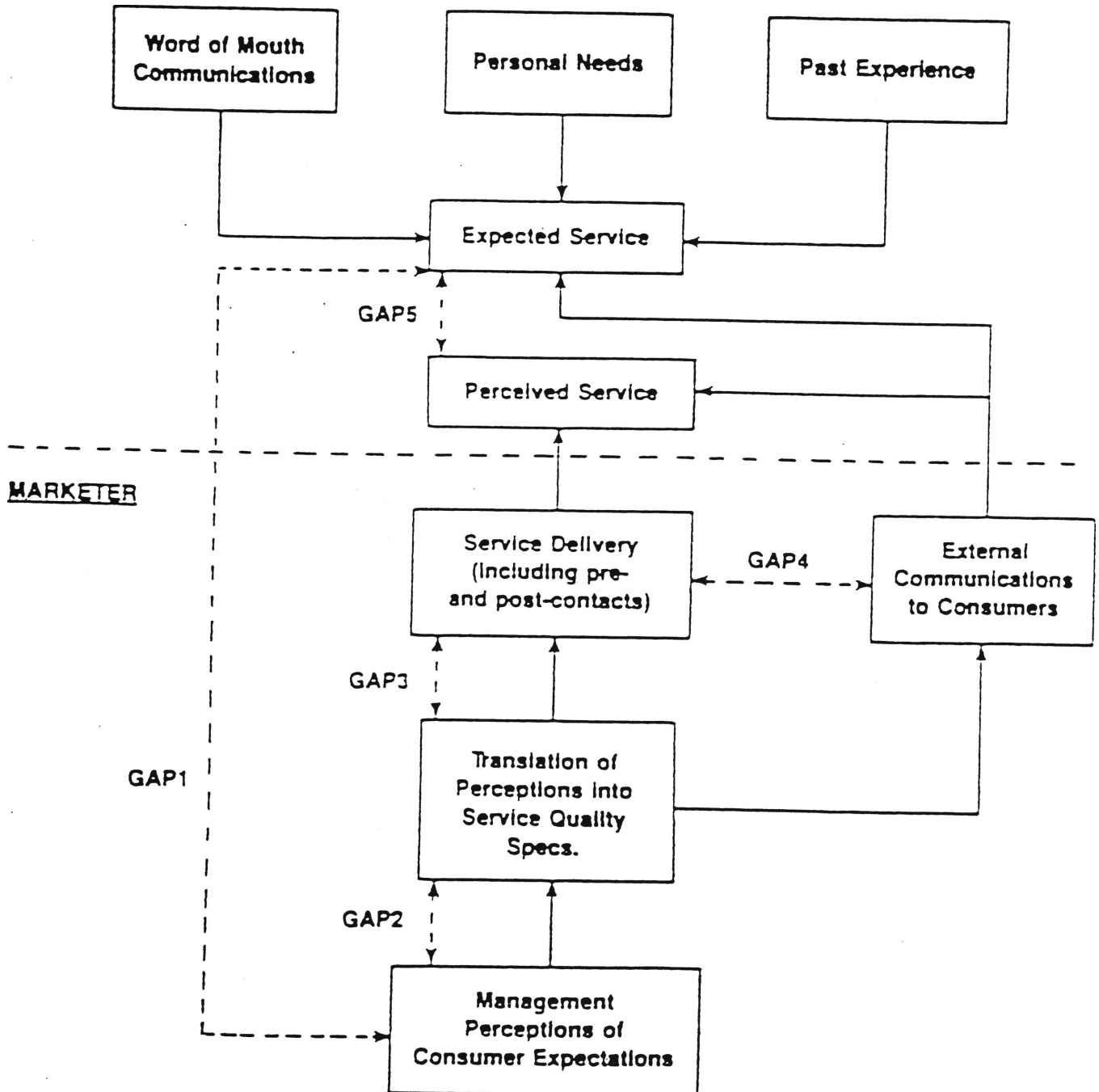
Berry, Parasuraman and Zeithaml first proposed (1983) to the Marketing Science Institute (MSI) that they conduct an exploratory research study on the subject of service quality. Since then, the research program they instituted has reached phase IV at the time of writing (1993). The following is a concise summary of the program which drawn from the information given in a series of journal articles and research monographs of those authors.

2..5.3.1 Phase 1:The development of the Service Quality Model

This commenced with an extensive qualitative study of both customers and the management of four different services categories. This study resulted in the development of the Service Quality Model (Figure 2-2) which indicates that customers' quality perceptions are influencing by a series of four distinct gaps that could impede delivery of high quality service (Gap 5). These are : -

Figure 2-2 Service Quality Model

CONSUMER



Source : Parasuraman A., Zeithaml Valerie A. & Berry Leonard L. (1985). A Conceptual Model of Service Quality and Its Implications for Future Research. Journal of Marketing 49 (Fall) 1985 : 43.

The Management Information Gap (Gap 1) : The difference between customers' expectations and management perceptions of these expectations. Existence of this gap indicates that management perceives quality expectations inaccurately.

The Standards Gap (Gap 2) : The difference between management perceptions of customers' expectations and service quality specifications. Existence of this gap indicates that service quality specifications are not consistent with the customers' needs of service.

The Service Performance Gap (Gap 3) : The difference between service quality specifications and the service actually delivered. Existence of this gap indicates that the established specifications are not met by the service performance.

The Communication Gap (Gap 4) : The difference between the actual service delivery and what has been communicated about the services to customers. Existence of this gap indicates that promises given by an organisation's market communication activities are not consistent with the service delivered.

The Service Quality Gap (Gap 5) : The difference between customers' expectations and perceptions of service performance, which is a function of Gap 1 to 4. Existence of this gap indicates that the perceived level of service experienced is not consistent with the customers' expected level of service.

2.5.3.2 Phase II : The development of the SERVQUAL instrument

This phase focused on the customers' perceptions of service and was an extension of the Service Quality Model (Figure 2-2) developed in Phase I. The research team (1988) developed an instrument for measuring service quality and refined the conclusions concerning the dimensions that customers frequently apply to evaluate service quality.

Firstly, they developed a measurement instrument, the SERVQUAL, for gauging customers' perceptions of service quality in both profit and non-for-profit organisations. This instrument is now accepted worldwide as the basis for service

quality evaluation Fick et al., 1991 ; Lewis, 1989) and was therefore chosen as the instrument for this study.

SERVQUAL is a multi-item instrument for assessing customers' perceptions of service quality. It consists of two sections : - (1) a 22 items section that measures customer's expectations of service organisations in general and (2) a corresponding 22 items section to measure customer's perceptions of a selected subject organisation (Parasuraman et al., 1988). All items can be reworded to customise the service context in which the instrument is to be used.

Secondly, their research has also broken new ground in developing our understanding of the determinants of customer's perceptions of service quality. They argued that the criteria used by customers in evaluating service quality are very similar regardless of the type of service being considered. Consequently, the research team (1988) proposed five dimensions that captured most criteria which customers use for service quality evaluation. These dimensions are (1) Tangibility, (2) Reliability, (3) Responsiveness, (4) Assurance, and (5) Empathy. The current version of SERVQUAL consists of these five dimensions, with a 22 sets of expectations and perceptions measuring statements contributing to the scale scores for those dimensions. These five dimensions of SERVQUAL are outlined following : -

Tangibility Tangibles are the part of the service offer that the customers can see, hear, and/or touch such as the facilities, equipment, and the appearance of the service provider (PZBM 1988; BZP, 1990). All these provide tangible clues to the nature and quality of the invisible service to customers.

Reliability Reliability is a perceptions and involves a subject evaluation on how well the promised service has been or is being performed (PZB, 1988; PBZ, 1991). The customer is the judge who determines whether the promises has been kept and fulfilled, and to what extent. Service dependence and accuracy are the key criteria for this measure.

Responsiveness Responsiveness is a perception of the willingness of the service provider in responding to the customer's unique needs of service (PZB, 1988; BZP, 1990). It is particularly important to customers who have specific problems or who require some service about the usual standard. The willingness to serve customers promptly and efficiently are the key criteria for this dimension.

Assurance Assurance refers to the courtesy and competence of service personnel that instils trust and confidence in customers (Berry et al., 1989, p.31).

Empathy Empathy is the willingness of the service provider to understand the customer's precise needs of service and find the appropriate way to satisfy them (Berry et al., 1989, p.32). It goes beyond professional courtesy and is a commitment to the customers and the organisation.

These five evaluation dimensions (tangibles, reliability, responsiveness, assurance and empathy) influence the customer's assessment of the overall service quality. The significance of each dimension varies according to the nature of each market segment. In theory, each dimension can be quantified by obtaining measures of expectations and perceptions of performance levels of all identified contributing factors to each dimension, then calculating their differences and averaging across factors (Bolton et al., 1991). In reality, however, there have been many difficulties in measuring a genuine and objective level of service quality. Difficulties frequently occur because : - (1) customers' perceptions of service are greatly dependent on the attitudes and performance of the service provider ; (2) customers judge a service depending on both the service process and the service outcome ; (3) the customers had illogical or impossible expectations of service that the organisation can never meet ; and (4) there may be regulatory constraints bounding the functioning of the organisation. In many cases, these problems are often beyond the control of the service organisation. Any one of these factors is sufficient to generate a disconfirmation of the service and a lower level of customer satisfaction (Lovelock, 1991, p.45).

2.5.3.3 Phase III : The development of the Extended Model of Service Quality

This phase shifted the focus of conceptualisation to both the performance of service providers and the functioning of service organisations. The research team conducted various studies in 89 separate field offices of five services organisations (details are given in Section 2.5.3.3(1)). Together with the first two phases, the research team studied six services sectors which included appliance repair, credit cards, insurance, long distance telephone service, retail banking and securities brokerage. These sectors are typical examples of services organisations and bear the unique characteristics of services. In the context of this study, the Australian credit union industry also shares these distinctive characteristics and should be included in this research area. It is for this omission from their research that the present study targets the Australian credit union industry for research.

Referring to their third phase of study, the research team identified an exhaustive set of service quality constructs that could affect the magnitude and direction of Gaps 1 to 4. Most of these constructs involve the communication and control processes used to manage employees, as well as the consequences of these processes. A summary of various constructs affecting the five gaps is shown in Table 2-1. This finding led the researchers to : - (1) extend the Service Quality Model developed in Phase 1 (Figure 2-3) and (2) the refinement of the SERVQUAL instrument.

(1) The Methodology of the American Study in Service Quality

Berry et al. (1988) conducted a quantitative study to investigate potential organisational problems that may contribute to service quality deficiencies as perceived by customers. this study was designed to : -

1. measure the relative importance of the five service quality dimensions from the perspectives of both customers and the organisation,

2. measure the relative sizes of Gaps 1 to 4 and the extent to which their antecedents were contributing to them (Table 2-1), and
3. suggest appropriate strategies and tactics for closing the four gaps that could contribute to a lower level of perceived service quality, by most customers(Gap 5).

The American study involved surveys of customers, front line employees, and managers in five nationally known America services organisations - a telephone company, two insurance companies and two banks. Each participating organisation was requested to provide 18 different "field units", defined as market areas with non overlapping customer bases and separate field offices. A total of 89 units, consisting of telephone repair service districts, branch banks, and insurance company field offices, provided samples of customers, employees and managers.

For the customer sample, each company provided a mailing list containing at least 75 randomly chosen customers of each field-unit location. A commercial marketing research firm assisted in data collection and the coding of the questionnaires sent to the customers, and for the employees and managers affiliated with the field units that participated in the study. All three groups of respondents received a reminder postcard two weeks after the questionnaires were mailed. Completed questionnaires were returned directly to the marketing research firm. A summary of the sample sizes for the five companies is shown in Table 2-2. In this table, Company 1 represents the telephone company, Company 2 and 3 are the insurance companies, and Company 4 and 5 are the banks. The combined response rate for all five companies was 21 percent for customers, 38 percent for employees and 62% for managers. Demographic profiles of the respondents matched against the sponsor companies were felt to be representative of the groups surveyed.

TABLE 2-1
SERVICE QUALITY MANAGEMENT

Theoretical Constructs Specific Variables

| | |
|---|--|
| Gap 1 Marketing research orientation | Amount of marketing research |
| | Usage of marketing research |
| | Degree to which marketing research focuses on service quality issues |
| | Extent of direct interaction between managers and customers |
| Upward communication | Extent of employee-to-manager communication |
| | Extent to which inputs from contact personnel are sought |
| | Quality of contact between top managers and contact personnel |
| Levels of management | Number of layers between customer personnel and top managers |
| ----- | |
| Gap 2 Management commitment to service quality | Resource commitment to quality |
| | Existence of internal quality programs |
| | Management perceptions of recognition for quality commitment |
| Goal-setting | Existence of a formal process for setting quality of service goals |
| Task standardization | Use of hard technology to standardize operations |
| | Use of soft technology to standardize operations |
| Perception of feasibility | Capabilities/systems for meeting specifications |
| | Extent to which managers believe consumer expectations can be met |

Theoretical Constructs Specific Variables

Gap 3 Team-work

Extent to which employees view other employees as customers

Extent to which contact personnel feel upper level managers genuinely care for them

Extent to which contact personnel feel they are cooperating (rather than competing) with others in the organization

Extent to which employees feel personally involved and committed

Employee-job-fit

Ability of employees to perform job

Importance and effectiveness of selection processes

Technology-job-fit

Appropriateness of tools and technology for performing job

Perceived control

Extent to which employees perceive they are in control of their jobs

Extent to which customer-contact personnel feel they have flexibility in dealing with customers

Predictability of demand

Supervisory control systems

Extent to which employees are evaluated on what they do (behaviours) rather than solely on output quantity

Role conflict

Perceived conflict between expectations of customers and expectations of organization
 - Amount of paperwork needed to complete service transactions
 - Number of internal contacts that customer-contact people must make to complete a service transaction or answer customer queries

Existence of management policy that conflicts with specifications

Theoretical Constructs Specific Variables

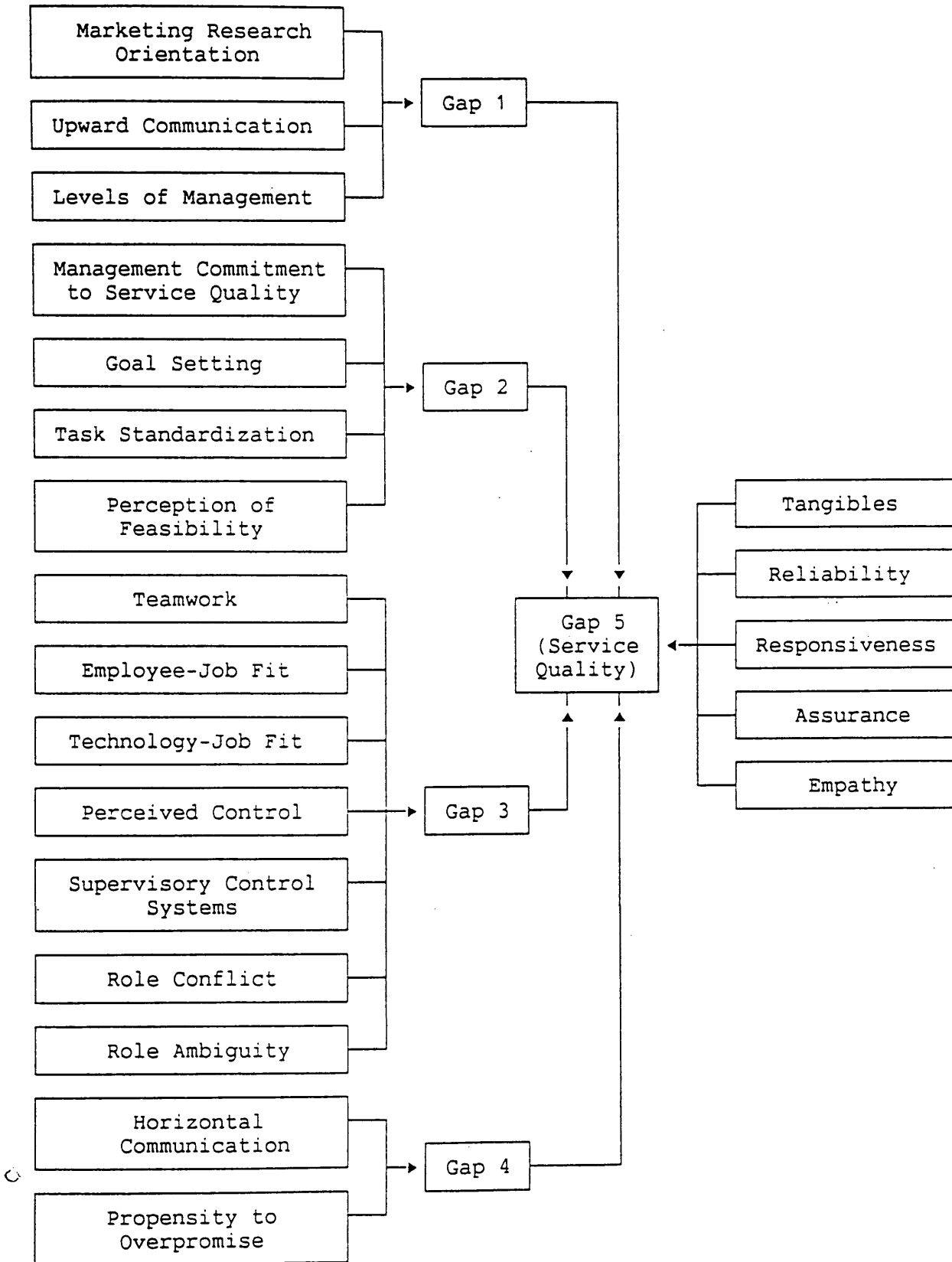
| | |
|----------------|--|
| Role ambiguity | <p>Perceived clarity of goals and expectations</p> <ul style="list-style-type: none"> - Frequency and quality of downward communication - Extent of constructive feedback given to contact personnel <p>Perceived level of competence and confidence</p> <ul style="list-style-type: none"> - Product knowledge of contact personnel - Product-specific training provided to contact personnel - Training in communication skills provided to contact personnel |
|----------------|--|

**Gap 4 Horizontal
 communication**

- Extent of input by operations people in advertising planning and execution
 - Extent to which contact personnel are aware of external communications to customers before they occur
 - Communication between sales and operations people
 - Similarity of procedures across departments and branches
 - Extent to which firm feels pressure to generate new business
 - Extent to which firm perceives that competitors overpromise
-

Source : Valarie A. Zeithaml, Leonard L. Berry, & A. Parasuraman, "Communication and Control Processes in the Delivery of Service Quality," Journal of Marketing, Vol.52, April 1988, pp.35-48.

Figure 2-3 Extended Model of Service Quality



Source : Zeithaml Valarie A., Berry Leonard L. & Parasuraman A. (1988). Communication and Control Processes in the Delivery of Service Quality. Journal of Marketing 52(April) : 46.

2.5.3.4 Phase IV

Developments in this phase centred on the topic of customer service expectations : how customers form their expectations and the key influence(s) that affect this process. The research team focused on the feasible approaches to be used in order to exceed customer's expectations of service. The researchers have not published any concrete findings at this time (1993).

Table 2-2

Sample Sizes for the American Empirical Study

| | Co.1 | Co.2 | Co.3 | Co.4 | Co.5 | All Companies |
|---|------|------|------|------|------|------------------|
| Number of respondents in : | | | | | | |
| Customer sample | 428 | 359 | 290 | 372 | 487 | 1,936 |
| Employee sample | 251 | 71 | 118 | 221 | 67 | 728 |
| Manager sample | 134 | 20 | 18 | 26 | 33 | 231 |
| Number of field units contributing respondents | 18 | 17 | 18 | 18 | 18 | 89 |

Note : The analysis in section 4.2, is based on the results of Company's 4 and 5 which are two American banks considered to be closely matched to the Illawarra Credit Union's position in the Australian banking industry.

Section Summary

This section has outlined the total quality movement and the far reaching changes of the operating definition of quality in the last decade (1980s). The total quality concept was initially developed for the manufacturing sector to strive for excellent quality of products. It focused on process improvement rather than inspection on finished products. Quality improvement was viewed as a never ending process in implementation and this "continuous improvement" philosophy began to be adopted by services organisations in the 1980s. Today, more progressive services organisations realise the vital importance of providing excellent service quality and view the quality strategy as a means to continually capture markets. The differences of institutional context between manufacturing and servicing sectors show that modifications are needed when implementing the tools and practices of quality management but the fundamental concepts of meeting customer's needs and requirements on a continuous and regular basis never changes.

This section also presented a selected framework for organisations to improving service quality and identifying potential areas for quality improvement. The review of literature on quality management led to the conclusion that *service quality* was a measure of how well the delivered service level consistently matched the customer expectations. The difference between customers' expectations and the service performance was described as *gaps*, where a gap revealed was a communication breakdown between the service provider and the customer in the services marketing system. This phenomenon was shown in the Service Quality Model, proposed by Berry & colleagues (1985, 1988).

The Service Quality Model (Figures 2-2, 2-3) proposed that there were gaps between manager's perceptions of customers' expectations of service, and the process of transferring these perceptions into actual delivery. The model also showed that there were gaps between the perceived and expected level of service quality by customers. These service quality deficiencies might not be noticed by the

organisation. It might be perceived that the customer was receiving the expected service. This service quality problem has two possible sources. Firstly, the organisation may not conduct adequate market research in soliciting information on the needs of each targeted segment and this shortcoming may be complicated by the second factor that, the organisation may not identify its operations and marketing deficiencies.

The SERVQUAL instrument, proposed by Berry & colleagues (1988), could be used a "gap" detection device to guide services organisations towards customers' perceptions and expectations. It can provide guidelines for managers and marketers in evaluating their service performance and making corporate decisions which could result in a distinct competitive advantage.

Purpose and Research Methodology

The objective of the present study is to test the soundness of SERVQUAL in tracking the level of service quality in an Australian banking scene. The instrument was used to : -

1. identify how selected subgroups of the ICU's members view and use the services provided by their credit union,
2. determine the expectations for retail banking services of those members,
3. identify what the managers of credit union perceives to be the members' needs of retail banking services,
4. analyse the subsequent gaps detected between the members' expectations of service and the management's perceptions of those expectations, and
5. determine how the credit union should provide its services in both satisfying the needs of most members and complying with institutional constraints.

This, as far as it is known, is the first application of a replication of SERVQUAL to the field of Australian credit unions (1993). A review of the literature on services marketing shows that there has been no reported replication of the initial work of Berry & colleagues applied to the Australian credit union industry. Permission to undertake the replication was granted by the Macmillian Publishing Company (New York) in September 1992 as attached in Appendix 3.

This chapter provides the details of the study methodology which includes (1) an abstract of the background to the Illawarra Credit Union and (2) a summary of the procedures and instrument of the study.

3.1 The Subject Organisation - The Illawarra Credit Union

The Illawarra Credit Union (ICU) has been in operation since July 1972 serving the people who either reside or work between Helensburgh and Kiama in the Illawarra Region, NSW. Even in this relatively short period, its membership had reached to 35,355 by July 1992 which represented approximately 10.4% of the region's population at that time. An analysis of the demographic profile of its membership will be fully discussed in section 4.2.

As a non-profit co-operative, the ICU continues its social responsibility role by sponsoring many community activities such as the "Junior Sports Star of the month" and various functions and awards with the University of Wollongong, NSW. The ICU also has as a primary commitment, the responsibility for improving the quality of its banking services to its members on a continuous and consistent basis. The success of the implementation of the "Team Excellence Program" in 1992 illustrates the commitment of the service quality of the organisation as a whole. Although it is already acknowledged that excellent service quality is given, a comprehensive service quality survey is still desirable so as to continuously maintain its stated management philosophy (as summarised in section 2.4).

3.2 Study Methodology

It is Berry, Parasuraman and Zeithaml's model and their comments for future research that forms the basis for the empirical researching findings presented in this study which uses a replication of the SERVQUAL instrument. The research design was relatively complex and dictated by the nature of the Service Quality Model (Figure 2-2) and its extended version (Figure 2-3). The methodology is presented below : -

3.2.1 Study Instrument

As mentioned above, this study applied SERVQUAL as a framework for formatting the four survey questionnaires used. Several alterations needed to be made to accommodate the unique characteristics of the ICU and the needs of the study.

Firstly, rewording was necessary in the subject of some individual items of the questionnaires so as to customise the service context of the study. For example, the following statements were used to measure expectations of the Tangible dimensions :

-

1. An excellent [credit union]* will have modern-looking equipment.
2. The physical facilities at an excellent [credit union]* will be visually appealing.
3. Employees of an excellent [credit union]* will appear neat.

Likewise, the following statements represent the corresponding perception measuring items for the Tangibles dimensions : -

1. The [Illawarra Credit Union]* has modern-looking equipment.
2. The [Illawarra Credit Union's]* physical facilities are visually appealing.
3. The [Illawarra Credit Union's]* employees are appear neat.

* where [] = customising the question

Secondly, a section on an overall impression about the Australian credit unions (eg. would they recommend the credit union to a friend) and a section on demographics (eg. occupation, age, income, education, and sex) were added as part of the "Member Satisfaction Survey" questionnaires. Reasons for these additional questions were to collect members' suggestions for quality improvement and generate demographic profiles for its market segments. This information is crucial in identifying the areas for quality improvement effort and specific banking needs of

each targeted segment of the ICU. It provides a direction for developing marketing policies and strategies for intangible banking services and is a core of the services marketing mix.

Thirdly, two modified versions of the "Member Satisfaction Survey" questionnaires were derived from SERVQUAL which consisted of more than 50 questions. Because of its extreme length, it was decided to modify the instrument for Australia use. The questions in "Member Satisfaction Survey" were equally divided using a random allocation process from the original version of the SERVQUAL instrument (Exhibits 1 and 2). Additionally, a modified version of the "Employee Opinion Survey" (Exhibit 3) and "Executive Opinion Survey" (Exhibit 4) were used as a part of the research instrument.

3.2.2 Procedures and Sample Size

The survey of the Illawarra Credit Union began in October 1992 by mailing questionnaires to a random sample of 2,560 members and to distributing questionnaires to all employees (7) and senior executives (20) of the credit union. The choice of sample size of each category was guided by the basic principles of market research and the recommendation of the Illawarra Regional Information Service, NSW.

The sample size for the members group was based on a 95% confidence level of the survey result and an expected response rate of 15%. Accordingly, 2,560 samples were chosen at random from its membership of 36,000 in October 1992.

The second group of samples from the ICU included those employees below the level of department head and the third, comprised all branch managers and senior executives of the credit union. Random sampling was not used because of the relatively small size of these two groups. Every individual of these two groups was surveyed.

A standard cover letter signed by the General Manager of the Illawarra Credit Union, Mr. J. Erickson, endorsing the study and requesting co-operation, was enclosed with each questionnaire (Appendix 4). The administration of the questionnaires was fully conducted by the credit union and was completed by December 1992.

3.2.3 Approaches for Measuring Gaps 1 to 4

The following is the procedure in operationalizing the extent of the four gaps which is according to the guideline suggested by Parasuraman et al (1988).

Gap 1 The SERVQUAL instrument consists of two sections : a 22 items section that measures customer's expectations of service organisations in general and a corresponding 22 items section to measure customer's perceptions of a selected subject organisation. These statements (in both the expectations and perceptions sections) are grouped into the five dimensions as follows : -

| <u>Dimensions</u> | <u>Corresponding Statements</u> |
|-------------------|---------------------------------|
| Tangibles | Statements 1 to 4 |
| Reliability | Statements 5 to 9 |
| Responsiveness | Statements 10 to 13 |
| Assurance | Statements 14 to 17 |
| Empathy | Statements 18 to 22 |

To measure the Management Information Gap (Gap 1), 14 senior executives of the ICU were asked to fill out the expectations section as if they were the credit union's members. In other words, senior executives were asked to predict the members' expectations of the aspects of banking services. Another similar measure of expectations was constructed in the Member Satisfaction Survey questionnaires. Gap 1 was operationalized as the discrepancy between the senior executives' rating and the

members' rating on the corresponding questions. Specifically, a Gap 1 score along each five dimensions was computed as follows : -

1. determine the average expectation score along the dimension for member sample.

This was obtained through the following two steps :

- (a) add the SERVQUAL scores on the statements pertaining to the dimension and divide the sum by the number of statements making up the dimension,
 - (b) add the quantity obtained in Step 1 across all N members and divide the total by N.
2. determine the average expectation score along the dimension as perceived by the senior executive sample, use the same procedure as under Step 1 and based on data from the senior executive sample.

This Gap 1 score captured the discrepancies between members and senior executives on expectations of service along the five dimensions. The more negative the Gap 1 score is, the greater the degree of inaccuracy of management's perceptions on members' needs.

Gap 2 to 4 As shown in Figure 2-3, Gaps 2, 3, and 4 fall entirely on the service providers' side of the Service Quality model. Therefore, the measurement of those three gaps requires data from both the employee and senior executive samples. These respondents were asked to indicate their perceptions of the extent of those gaps exist in the credit union.

Specifically, for each gap, respondents were asked to indicate the extent of the gap along each of the five service quality dimensions, and used a seven point rating scale (Exhibits 3 and 4). Then, an overall measure of each gap was obtained by

averaging the scores across the five dimensions. The higher the score on the scale, the smaller is the gap.

3.2.4 Approaches for Measuring Service Quality Constructs Influencing Provider Gaps and their Causes

The measurement of the contributing factors influencing the service quality of the Illawarra Credit Union was based on the ratings assigned by its employees and senior executives on those relevant statements.

Pages 8 and 9 of an Executive Opinion Survey questionnaire (Exhibit 4) contain a set of statements to measure the Standard Gap (Gap 2) as follows : -

| <u>Antecedents of Gap 2</u> | <u>Corresponding Statements</u> |
|--|---------------------------------|
| Management's Commitment to Service Quality | Statements 10 to 13 |
| Goal Setting | Statements 14 to 15 |
| Task Standardisation | Statements 16 to 17 |
| Perception of Feasibility | Statements 18 to 20 |

Likewise, pages 4, 5 and 6 of an Employee Opinion Survey questionnaire (Exhibit 3) contain a set of statements to measure the two gaps representing performance shortfalls on the part of first line employees (i.e. Gaps 3 and 4) as follows : -

| <u>Antecedents of Gap 3</u> | <u>Corresponding Statements</u> |
|-----------------------------|---------------------------------|
| Teamwork | Statements 1 to 5 |
| Employee-Job-Fit | Statements 6 to 7 |
| Technology-Job-Fit | Statement 8 |
| Perceived Control | Statements 9 to 12 |
| Supervisory Control Systems | Statements 13 to 15 |
| Role Conflict | Statements 16 to 19 |
| Role Ambiguity | Statements 20 to 24 |

| <u>Antecedents of Gap 4</u> | <u>Corresponding Statements</u> |
|-----------------------------|---------------------------------|
| Horizontal Communication | Statements 25 to 28 |
| Propensity to Overpromise | Statements 29 to 30 |

Analysis of the Data :

Multiple Regression analysis was used to confirm whether that there was, in fact, a significant relationship between the antecedents to each of the dependent

variables (i.e. Gap 2 to 4) which affected the overall level of quality (Gap 5). This analysis was provided by a regression coefficient (p-value) for each antecedent. The analysis principle is the larger the coefficient obtained, the stronger the impact of that antecedent on the dependent variable (Parasuraman, 1991, p.713 ; Aaker et al., 1990, p.630). The results and implications of gaps from member, employee and senior executive samples are outlined in Section 4.2.

Analysis and Results

4.1 Application of a Replication of the Banking Service Measures

This chapter presents and summaries the empirical comparison between the original American results conducted by Parasuraman research team (1988) and the 1993 Illawarra Credit Union study of retail banking services (Table 4-1 and Figure 4-1). The primary data is shown in Attachment 1 (Table 1) and Attachment 2 (Table 1). The results showed that there are significant differences between the two studies in three of the service quality dimensions (tangibility, reliability and responsiveness), both showed identical patterns in the service quality construct for both the customers' expectations and the managers' perceptions of those expectations.

Table 4-1 shows the differences between the customers' (members') expectations and the managers' (senior executives') perceptions of those expectations of the five service quality dimensions of both studies. The mean score of the America bank customers' expectations on : -

tangibility - 5.29

reliability - 6.48

responsiveness - 6.40

assurance - 6.47

empathy - 6.25

The overall score - 6.19.

The mean score of the ICU members' expectations on : -

tangibility - 5.62

reliability - 6.70

Table 4-1 Mean Scores of Customers' (Members') Expectations and Managers' (Senior Executives') Perceptions of those Expectations

| Service Quality Dimensions | Tangibility | Reliability | Responsiveness | Assurance | Empathy | Overall |
|----------------------------|-------------|-------------|----------------|-----------|---------|---------|
| Customers (US) | 5.29 | 6.48 | 6.40 | 6.47 | 6.25 | 6.19 |
| Members (Aust) | 5.62 | 6.70 | 6.58 | 6.48 | 6.41 | 6.38 |
| Managers (US) | 5.54 | 6.39 | 6.32 | 6.43 | 6.06 | 6.15 |
| Senior executives (Aust) | 5.70 | 6.54 | 6.24 | 6.40 | 6.23 | 6.23 |

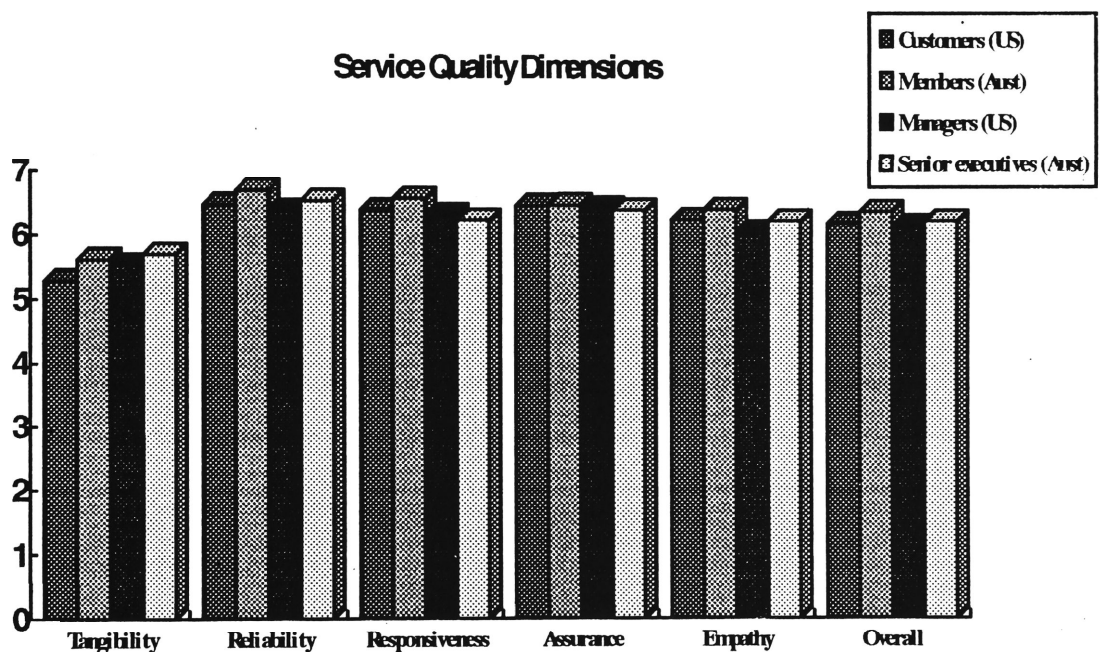


Figure 4-1 Mean Scores of Customers' (Members') Expectations and Managers' (Senior Executives') Perceptions of those Expectations

Note :

- (1) The primary data is shown in Attachment 1 (Table 1) and Attachment 2 (Table 1)

responsiveness - 6.58
assurance - 6.48
empathy - 6.41
The overall score - 6.38

The mean scores of the America banker' perceptions on : -

tangibility - 5.54
reliability - 6.39
responsiveness - 6.32
assurance - 6.43
empathy - 6.06
The overall score - 6.15

The mean scores of the ICU senior managers' perceptions on : -

tangibility - 5.70
reliability - 6.54
responsiveness - 6.24
assurance - 6.40
empathy - 6.23
The overall score - 6.23

The existence of differences in the mean scores should not be considered as prima facie evidence of the instrument's inconsistency. Some differences could be expected because of a time lapse of approximately five years between the two studies. Each was conducted in a different banking community, and the weighted level of expectations and perceptions of banking services may have changed over this period of time, however, taking all these factors into consideration, it was considered evident that the service quality construct for both studies remained consistent in its responses for retail banking services. From this, it can be stated that SERVQUAL provides a

comprehensive and generic measurement for tracking the level of retail banking service quality on an industry wide basis in different geographic locations.

4.2 Analysis Characteristics

A total of 457 responses were received, representing an overall response rate of 17%. For the member sample, 396 were returned, a 16 percent response rate. A total of 61 questionnaires were returned from lower level employees and senior executives, with an overall response rate of 68 percent, of these, 47 were below the level of department head (67% response of this group) and 14 were at the level of department head or higher (70% response of this group). The survey response rates are shown in Table 4-2.

Table 4-2 Survey Response Rates by Groups (the Illawarra Credit Union)

| | Members | Employees | Executives | Total |
|-------------------|---------|-----------|------------|-------|
| Sample Size | 2560 | 70 | 20 | 2650 |
| Respondents | 396 | 47 | 14 | 457 |
| Response rate (%) | 16 | 67 | 70 | 17 |

The Chi-Square Goodness-of-Fit test was applied to test the statistical reliability of the member respondents (Lewis et al., 1990, pp.197-202). It aimed at testing whether the member respondents was representative of the Australian population, the Australian credit unions, and the ICU in gender, age and income.

The results of the Chi-Square test in sex distribution show that the construct of the member respondents is representative of credit unions in Australia as a whole (Table 4-5, Part a). Likewise, this construct is also representative of the Australian population (Tables 4-5, Part b).

The results of the chi-square in age and income distribution show that the construct of the member respondents is not representative of either the Australian credit unions and the Australian population base (Table 4-5, Parts c,d and e).

The overall results of the Chi-Square tests (Table 4-5) showed that the gender distribution of members respondents, was constructed as being representative of both credit unions in NSW and in Australia as a whole. It was also representative of the population bases in the Illawarra Region, in NSW and in Australia. These findings gives further support to the conclusion that : - (1) the Illawarra Credit Union is representative of the Australian retail banking industry and (2) the validity of the present study can be extended to all Australian credit unions and the Australian population generally.

4.3 An Empirical Comparative Analysis of the Level of Service Quality Between the two American Retail Banks and the Illawarra Credit Union

This section reports the results of the empirical analysis of the American and Australian studies derived from application of the SERVQUAL instrument in measuring perceived service quality in a deregulated banking environment. The Extended Model of Service Quality provides a comprehensive framework for this analysis (Figure 2-3).

4.3.1 Findings for the Management Information Gap (Gap 1)

Table 4-1 and Figure 4-1 show the mean scores of customers' expectations of service and managers' predictions of those expectations on the five dimensions in the two American retail banks and the ICU.

Firstly, the overall results suggest that Gap 1 was not a serious problem in all three institutions studied. Table 4-1 shows that the overall mean score of the

Table 4-3

Comparison of Survey Respondents Pattern with the Australian Population Profile

| | <u>Survey Respondents (%)</u> | <u>Australian Population Base (%)</u> | | |
|---------------|-------------------------------|---------------------------------------|------------|------------------|
| | | <u>Australia</u> | <u>NSW</u> | <u>Illawarra</u> |
| Sex | | | | |
| Male | 52.40 | 49.64 | 49.64 | 49.86 |
| Female | 45.90 | 50.36 | 50.36 | 50.14 |
| Couple | 1.70 | | | |
| Age | | | | |
| under 19 | 2.00 | 30.10 | 29.60 | 30.60 |
| 20-24 | 11.70 | 8.00 | 7.70 | 7.00 |
| 25-34 | 18.80 | 216.22 | 16.16 | 15.50 |
| 35-49 | 39.10 | 21.10 | 20.99 | 20.00 |
| 50-64 | 22.60 | 13.35 | 13.72 | 14.80 |
| over 65 | 5.80 | 11.28 | 11.84 | 12.10 |
| Income | | | | |
| under 5,400 | 10.80 | 5.70 | 5.60 | |
| 5,401 -20,700 | 30.20 | 34.80 | 33.80 | |
| 20,701-36,000 | 29.30 | 43.90 | 43.50 | |
| 36,001-50,000 | 17.00 | 11.00 | 11.50 | |
| 50,001 & over | 12.60 | 4.50 | 5.50 | |
| unemployed | 5.40 | 9.50 | 10.60 | 11.40 |

Source : First Counts for National Summary 1991 Census

Table 4-4

Comparison of Membership Pattern between Survey Respondents and Australian Credit Unions

| | <u>Survey Respondents (%)</u> | <u>Australian Credit Unions Base (%)</u> | | |
|------------|-------------------------------|--|------------|------------|
| | | <u>Australia</u> | <u>NSW</u> | <u>ICU</u> |
| Sex | | | | |
| Male | 52.40 | 52.00 | 51.00 | 61.43 |
| Female | 45.90 | 48.00 | 49.00 | 33.15 |
| Couple | 1.70 | | | 5.40 |
| Age | | | | |
| under 19 | 2.00 | | | |
| 20-24 | 11.70 | | | |
| 25-34 | 18.80 | | | |
| 35-49 | 39.10 | | | |
| 50-64 | 22.60 | | | |
| Over 65 | 5.80 | | | |
| 18-24 | | 11.00 | 12.00 | |
| 25-29 | | 11.00 | 10.00 | |
| 30-34 | | 12.00 | 11.00 | |
| 35-39 | | 15.00 | 15.00 | |
| 40-44 | | 13.00 | 12.00 | |
| 45-49 | | 10.00 | 11.00 | |
| 50-54 | | 8.00 | 7.00 | |
| 55-64 | | 11.00 | 12.00 | |
| 65 & over | | 8.00 | 9.00 | |
| <25 | | | | 30.10 |
| 25-34 | | | | 20.70 |
| 35-44 | | | | 19.10 |
| 45-54 | | | | 15.60 |
| 55 & over | | | | 12.90 |

Sources : Unpublished statistical information from the Credit Union Services Corporation (Australia) Ltd and the Illawarra Credit Union.

Table 4-5 The Results of the Chi-square Calculation

Assumptions : -

(1) Level of confidence = 0.05

(2) Formal decision rule :

Reject the null hypothesis if the value is greater than that of d.f. at α 0.05.

Accept the null hypothesis if the value is smaller than that of d.f. at α 0.05.

a) Calculation of chi-square for a sex distribution of the member respondents, Australian credit unions and the Illawarra Credit Union

1) Sex distribution the member respondents VS Australian credit unions

| | Observed number (Oi) | Expected proportion from Australian credit unions (pi) | Expected number (Ei) = N x Oi | (Oi - Ei) / Ei |
|--------|----------------------|--|-------------------------------|----------------|
| Male | 214 | 0.52 | 206 | 0.31 |
| Female | 182 | 0.48 | 190 | 0.33 |
| Total | 396 | | 396 | 0.64 |

As the calculated value of χ is 0.64 which is less than 3.84, we *accept* the null hypothesis.

2) Sex distribution of member respondents VS the Illawarra Credit union (ICU)

| | Observed number (Oi) | Expected proportion from the ICU (pi) | Expected number (Ei) = N x Oi | (Oi - Ei) / Ei |
|--------|----------------------|---------------------------------------|-------------------------------|----------------|
| Male | 214 | 0.6143 | 265 | 9.81 |
| Female | 182 | 0.3315 | 131 | 19.86 |
| Total | 396 | | 396 | 29.67 |

As the calculated value of χ is 29.67 which is greater than 3.84, we *reject* the null hypothesis.

b) Calculation of chi-square for the sex distribution of member respondents and Australian population

| | Observed number (Oi) | Expected proportion from Australian population (pi) | Expected number (Ei) = N x Oi | (Oi - Ei) / Ei |
|--------|----------------------|---|-------------------------------|----------------|
| Male | 214 | 0.4964 | 197 | 1.47 |
| Female | 182 | 0.5036 | 199 | 1.45 |
| Total | 396 | | 396 | 2.92 |

As the calculated value of χ is 2.92 which is less than 3.84, we *accept* the null hypothesis.

c) **Calculation of chi-square for the age distribution of member respondents and Australian credit unions**

| | Observed number (O _i) | Expected proportion from Australian credit unions (p _i) | Expected number (E _i) = N x O _i | (O _i - E _i) / E _i |
|----------|-----------------------------------|---|--|---|
| under 24 | 54 | 0.11 | 45 | 1.8 |
| 25-34 | 75 | 0.23 | 92 | 3.14 |
| 35-49 | 155 | 0.38 | 151 | 0.11 |
| 50-64 | 90 | 0.19 | 76 | 2.58 |
| over 65 | 22 | 0.08 | 32 | 3.13 |
| Total | 396 | | 396 | 10.76 |

As the calculated value of χ^2 is 10.76 which is greater than 9.49, we *reject* the null hypothesis.

d) **Calculation of chi-square for the age distribution of member respondents and Australian population**

| | Observed number (O _i) | Expected proportion from Australian population (p _i) | Expected number (E _i) = N x O _i | (O _i - E _i) / E _i |
|-----------|-----------------------------------|--|--|---|
| under 19 | 8 | 0.3010 | 122 | 103.8 |
| 20-24 | 46 | 0.0800 | 31 | 6.78 |
| 25-34 | 75 | 0.1622 | 63 | 1.63 |
| 35-49 | 155 | 0.2110 | 85 | 60.80 |
| 50-64 | 90 | 0.1335 | 52 | 25.37 |
| 65 & over | 22 | 0.1128 | 44 | 10.54 |
| Total | 396 | | 396 | 208.92 |

As the calculated value of χ^2 is 208.92 which is greater than 11.07, we *reject* the null hypothesis.

e) **Calculation of chi-square for the income profile of member respondents and Australian population**

| | Observed number (O _i) | Expected proportion of income from Australian population (p _i) | Expected number (E _i) = N x O _i | (O _i - E _i) / E _i |
|--------------|-----------------------------------|--|--|---|
| under 5400 | 43 | 0.057 | 22 | 19.11 |
| 5401 -20700 | 120 | 0.348 | 134 | 1.52 |
| 20701-36000 | 116 | 0.4390 | 172 | 18.33 |
| 36001-50000 | 67 | 0.11 | 46 | 10.42 |
| 50001 & over | 50 | 0.045 | 22 | 36.51 |
| Total | 396 | | 396 | 85.89 |

As the calculated value of χ^2 is 85.89 which is greater than 9.49, we *reject* the null hypothesis.

American bank customers' expectations is 6.19 while the ICU's members' is 6.38. The mean score of the America managers' perceptions of customers' expectations is 6.15 while the ICU's senior executives' is 6.23. There are only 0.04 and 0.15 in the American and Australian studies respectively. It should be noted here that, the decision rule for the evaluation of Gap 1 was not well defined in the American study. It only revealed that a difference of 0.4, described as a "relatively small Gap 1". This very small gap situation can be explained by the extensive market research of the two American banks and the ICU. The results also highlight the trend of expectations of service of the two banking communities. These are : -

1. the vital important dimensions were reliability, responsiveness, assurance and empathy in the provision of excellent retail banking services;
2. the least important dimension was tangibility in increasing levels of perceived quality of most bank customers.

However, there are two significant differences between the two communities. These are : -

1. the expectations along the five dimensions (tangibility, reliability, responsiveness, assurance and empathy) of the Australian research population are relative higher than the American ones; and
2. the prediction of customers' expectations along the five service quality dimensions of the ICU' managers are relatively more accurate than those of the two American banks.

The relative importance of the three contributing factors (marketing research orientation, upward communication, and number of levels of management) are also shown in Table 4-6 and Figure 4-2. The primary data are shown in Attachment 1 (Table 2) and Attachment 2 (Table 2). These scores are on a seven-point scale on which the higher scores represent the more favourable levels. The discrepancy

Table 4-6 Mean Scores of Management Information Gap (Gap 1) and Its Antecedents

| | Company (Co.) 4 | Company (Co.) 5 | ICU |
|--------------------------------|-----------------|-----------------|-----|
| Marketing Research Orientation | 5.0 | 4.7 | 5.1 |
| Upward Communication | 5.0 | 4.4 | 4.6 |
| Number of Levels of Management | 2.2 | 2.3 | 5.2 |

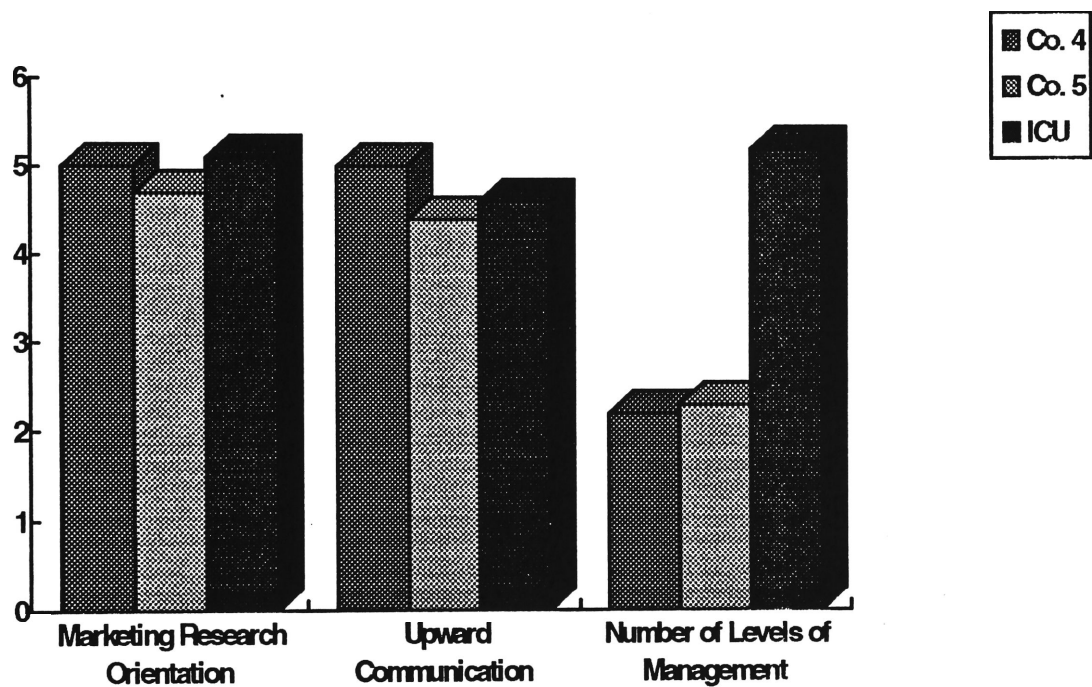


Figure 4-2 Mean Scores of Management Information Gap (Gap 1) and Its Antecedents

Notes: -

- (1) Company 4 and 5 represent the two banks in the American study. ICU represents the Illawarra Credit Union.
- (2) Scores are average values on a seven-point scale on which the higher the number, the smaller is the gap.
- (3) The primary data is shown in Attachment 1 (Table 2) and Attachment 2 (Table 2).

between each mean score and a score of 7 (the highest possible score) represents the potential for improvement.

Firstly, the mean scores of number of levels of management for the two American banks are 2.2 and 2.3 respectively. This results indicate that the perception that too many levels of separate top management from the lower level employees is a significant problem that denotes a lack of marketing research orientation and inadequate communication. This finding, coupled with the initial finding, that top management did have a relatively accurate view of customers' expectations of banking services, suggesting that too many levels of management in large organisations are inhibiting downward communication of market research information. To improve service quality, this information ought to be disseminated within the organisation and to, the front line employees, in particular. The reason for this is that market research information helps service providers to understand the needs and requirements of customers which would in turn, help to uplift the levels of customer satisfaction.

Secondly, the results also indicate that all the three factors (marketing research orientation, upward orientation and number of levels of management) are not significant problems for the ICU. The mean score of marketing research orientation for ICU is 5.1, the upward communication is 4.6 and the number of levels of management is 5.2. This could be as the result of the relatively small size of the ICU and the initial finding that senior executives had a relative accurate view of members' expectations of banking services.

4.3.2 Findings for the Standards Gap (Gap 2)

The results of the measurement of the size of Standards Gap (Gap 2) and the relative importance of the four contributing factors are shown in Table 4-7 and Figure 4-3. The MP2 (managers' perceptions of Gap 2) shows the sizes of Gap 2 as perceived by the managers, and the EP2 (employees' perceptions of Gap 2) as perceived by the employees of the three institutions. The primary data is shown in Attachment 1 (Table

Table 4-7 Mean Scores of Standards Gap (Gap 2) and Its Antecedents

| | Company (Co.) 4 | Company (Co.) 5 | ICU |
|---|--------------------|--------------------|-----|
| Managers' Perceptions of Gap 2 | 5.2 | 4.5 | 5.4 |
| Employees' Perceptions of Gap 2 | 5.6 | 5.5 | 5.8 |
| Management Commitment of Service Quality | 4.2 | 3.6 | 5.1 |
| Goal Setting | 5.5 | 4.1 | 4.8 |
| Task Standardization | 4.6 | 3.6 | 5.6 |
| Perception of Feasibility | 4.3 | 4.1 | 5.1 |

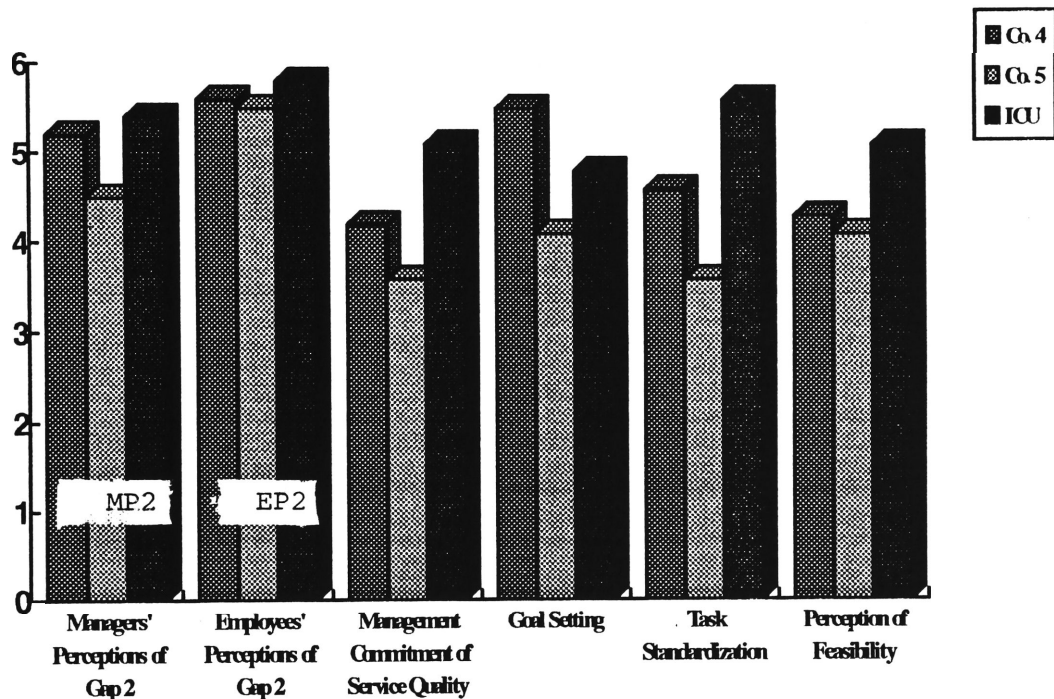


Figure 4-3 Mean Scores of Standards Gap (Gap 2) and Its Antecedents

Notes: -

- (1) Company 4 and 5 represent the two banks in the American study. ICU represents the Illawarra Credit Union.
- (2) MP2 represents managers' perceptions of Gap 2. EP2 represents employees' perceptions of Gap 2.
- (3) Scores are average values on a seven-point scale on which the higher the number, the smaller is the gap.
- (4) The primary data is shown in Attachment 1 (Table 3) and Attachment 2 (Tables 3 and 4).

3) and Attachment 2 (Tables 3 and 4). The bars to the right of Figure 4-3 show the levels of perceptions of individual factors (management's commitment to service quality, goal setting, task standardisation, and perception of feasibility) which results in Gap 2.

One interesting pattern of results across the three institutions is that the employees' perceptions of the size of Gap 2 are consistently higher than that of the managers'. The mean scores of managers' perceptions for the two American banks and ICU are 5.2, 4.5 and 5.4 respectively. The mean scores of employees' perceptions for the two American banks and ICU are 5.6, 5.5 and 5.8 respectively. This indicates that employees appear to have a more optimistic view of the current operating system than does management. It is also noted that the size of Gap 2 is smaller in the ICU than in the two American banks.

Figure 4-3 reveals the relative importance of the four factors contributing to Gap 2. The size of the gap in each individual factor is different across the three institutions, suggesting that Gap 2 may have different "driving forces" for each institution. For this reason, institutions need to identify which ones are critical to their organisation's operations and functioning. Then, the most critical item(s) should be targeted for immediate attention for the closing of the Standards Gap (Gap 2).

A comparison of the two American banks and the ICU shows that :-

1. the ICU had relatively smaller gaps in the three individual factors than the two American banks. These factors are : (a) management commitment to service quality, (b) task standardisation and (c) perception of feasibility. This may well be the result of the implementation of the "Team Excellence Program" of the ICU in 1992.
2. the ICU had a larger gap in the goal setting than the two American banks. This situation indicates that the ICU's management may have had the misperception that the goals and/or service quality standards should be based on internal company standards rather than on members' needs and requirements. This has led to a

mismatch between established service quality specifications and the needs of most members which results in a lower level of member satisfaction. Therefore, the development of an effective standard is a prerequisite for narrowing the Gap 3. (ie. implementing processes for developing concrete service quality specifications that reflect members expectations).

4.3.3 Findings for the Service Performance Gap (Gap 3)

The results of the measurement on the size of Service Performance Gap (Gap 3) and the impact of the seven contributing factors in the two American banks and the ICU are presented in Table 4-8 and Figure 4-4. The primary data is shown in Attachment 1 (Table 4) and Attachment 2 (Tables 3 and 5). The MP3 (managers' perceptions of Gap 3) shows the size of Gap 3 as perceived by the managers, and the EP3 (employees' perceptions of Gap 3) as perceived by the employees of the three institutions. These scores are on a seven point scale on which the higher the number scored, the more favourable the level.

The mean scores of managers' perceptions for the two American banks and ICU are 5.1, 5.1 and 5.9 respectively. The mean scores of employees' perceptions for the two American banks and ICU are 5.4, 5.6 and 6.0 respectively. This results indicate that both the senior executives and employees of the ICU have a more optimistic view of Gap 2 than the two American banks. The mean score of Gap 2 of the ICU group is higher than the two American banks and, the senior managers perceptions of Gap 2, in particular.

The bars to the right in Figure 4-4 show the levels of individual factors (teamwork, employee job fit, technology job fit, perceived control, supervisory control systems, role conflict, and role ambiguity). A striking result is that in all three institutions, *role conflict* is the key factor with the biggest gap. The mean scores of role conflict for the two American banks and ICU are 3.0, 3.0 and 3.2 respectively. It appears that employees perceived that they could not satisfy all the demands of all the

Table 4-8 Mean Scores of Service Performance Gap (Gap 3) and Its Antecedents

| | Company (Co.) 4 | Company (Co.) 5 | ICU |
|---------------------------------|--------------------|--------------------|-----|
| Managers' Perceptions of Gap 3 | 5.1 | 5.1 | 5.9 |
| Employees' Perceptions of Gap 3 | 5.4 | 5.6 | 6.0 |
| Teamwork | 5.6 | 5.7 | 6.1 |
| Employee Job Fit | 5.4 | 5.5 | 5.6 |
| Technology Job Fit | 5.2 | 4.9 | 5.6 |
| Perceived Control | 3.9 | 3.9 | 4.7 |
| Supervisory Control Systems | 4.4 | 4.4 | 3.6 |
| Role Conflict | 3.0 | 3.0 | 3.2 |
| Role Ambiguity | 4.0 | 4.1 | 5.6 |

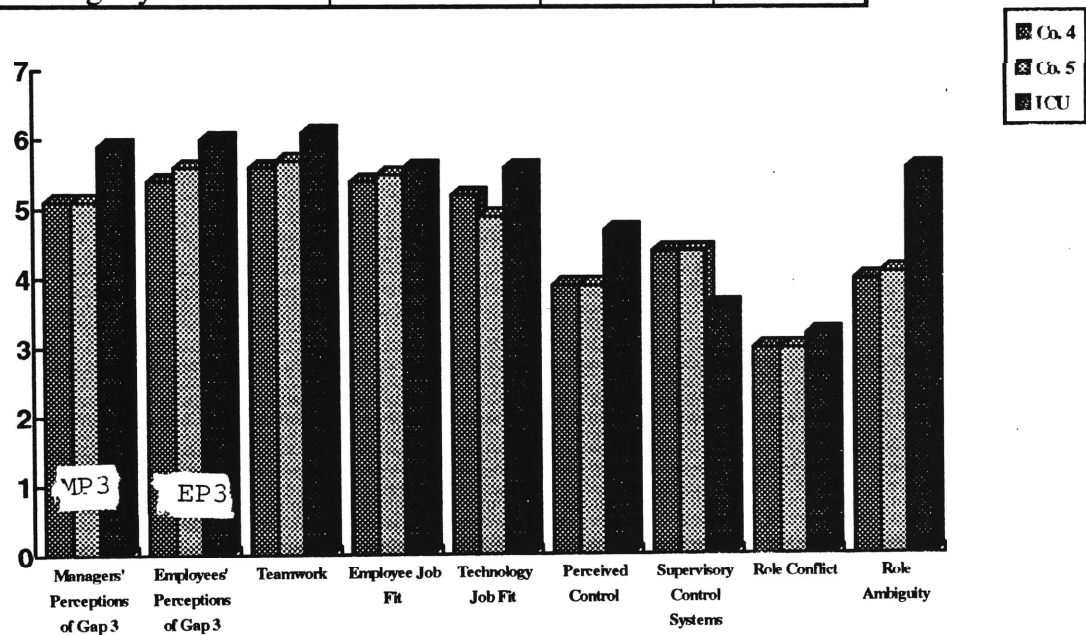


Figure 4-4 Mean Scores of Service Performance Gap (Gap 3) and Its Antecedents

Notes: -

- (1) Company 4 and 5 represent the two banks in the American study. ICU represents the Illawarra Credit Union.
- (2) MP3 represents managers' perceptions of Gap 3.
- (3) EP3 represents employees' perceptions of Gap 3.
- (4) Scores are average values on a seven-point scale on which the higher the number, the smaller is the gap.
- (5) The primary data is shown in Attachment 1 (Table 4) and Attachment 2 (Tables 3 and 5).

customers. This may be a result of (1) the management's emphasis on the selling of services and expecting employees to sell services and at the same time attend to customers in routine tasks (2) the existence of "red tape" in its operation and (3) role overload generally. This finding seems to suggest that banking institutions should strive to reduce the role conflict as a prerequisite in closing the Service Performance Gap (Gap 3).

In comparison with the two American banks and the ICU had relative smaller gaps in most factors except the *supervisory control system*. The mean scores of supervisory control system for the two American banks and ICU are 4.4, 4.4 and 3.6 respectively. It appears that the ICU has an supervisory control system which leads to an inappropriate evaluation/reward system. This in turn makes employees unwilling to perform the service at the level desired by management.

4.3.4 Findings for the Communication Gap (Gap 4)

The results of the measurement of the size of Communication Gap (Gap 4) and the impact of the two factors in the two American banks and the ICU are shown in Table 4-9 and Figure 4-5. The primary data is shown in Attachment 1 (Table 5) and Attachment 2 (Tables 3 and 6). The MP4 (managers' perceptions of Gap 4) shows the size of the gap as perceived by the managers and the EP4 (employees' perceptions of Gap 4) as perceived by the employees of the three institutions.

One interesting pattern that emerges is that employees tend to perceive the current status of Gap 4 in their institution to be higher than the managers' perceptions. The mean scores of managers' perceptions for the two American banks and ICU are 5.0, 4.7 and 5.4 respectively. The mean scores of employees' perceptions for the two American banks and ICU are 5.4, 5.5 and 6.1 respectively. This indicates that the employees have a more optimistic view of the size of the gap than the managers. Consistent with this observation, managers perceive that their institutions need to pay more attention to closing Gap 4 than the employees believe.

Table 4-9 Mean Scores of Communication Gap (Gap 4) and Its Antecedents

| | Company (Co.) 4 | Company (Co.) 5 | ICU |
|------------------------------------|--------------------|--------------------|-----|
| Managers' Perceptions of Gap 4 | 5.0 | 4.7 | 5.4 |
| Employees' Perceptions of Gap 4 | 5.4 | 5.5 | 6.1 |
| Horizontal Communication | 3.8 | 3.3 | 3.9 |
| Propensity To Overpromise | 2.3 | 2.7 | 4.1 |

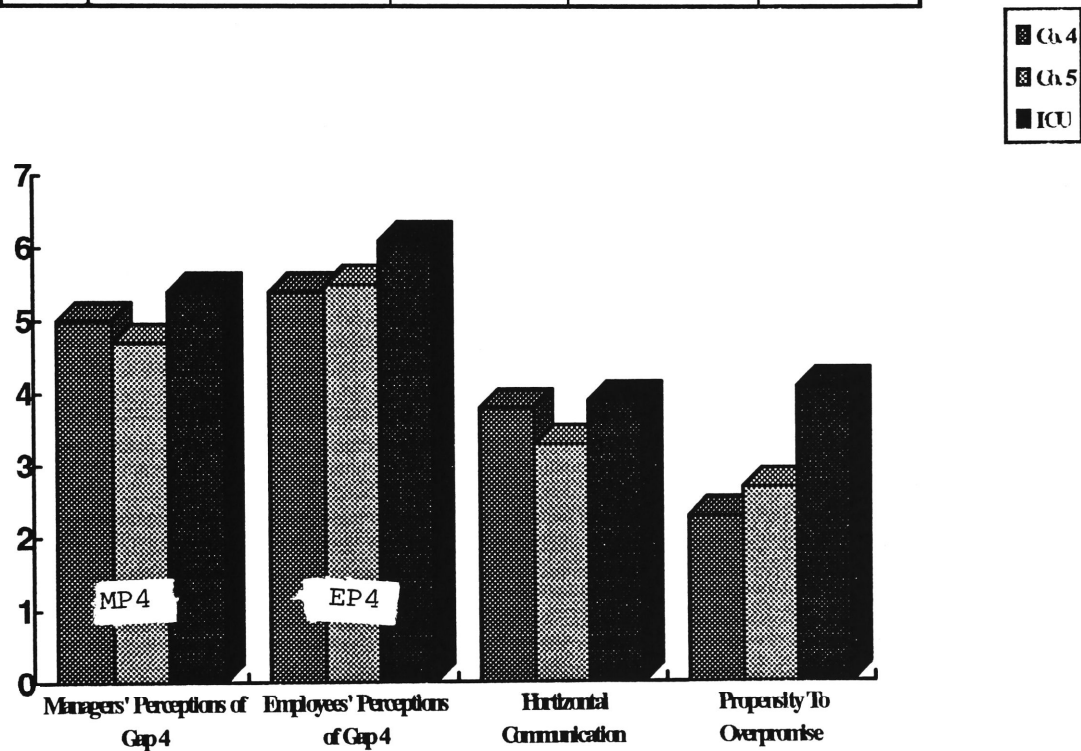


Figure 4-5 Mean Scores of Communication Gap (Gap 4) and Its Antecedents

Notes: -

- (1) Company 4 and 5 represent the two banks in the American study. ICU represents the Illawarra Credit Union.
- (2) MP4 represents managers' perceptions of Gap 4. EP4 represents employees' perceptions of Gap 4.
- (3) Scores are average values on a seven-point scale on which the higher the number, the smaller is the gap.
- (4) The primary data is shown in Attachment 1 (Table 4) and Attachment 2 (Tables 3 and 6).

The bars to the right of Figure 4-5 show the levels of individual factors of horizontal communication and propensity to overpromise in the three institutions. A noticeable finding is the importance of horizontal communication in closing Gap 4. The mean scores of horizontal communication for the two American banks and ICU are 3.8, 3.3 and 3.9 respectively. This implies that an effective internal communication and coordination is a prerequisite for ensuring consistency between what is communicated about the service to customers and the service actually delivered.

An equally striking finding is the substantial lack of association between propensity to overpromise and Gap 4. The mean scores of propensity to overpromise for the two American banks and ICU are 2.3, 2.7 and 4.1 respectively. It is apparent that a high propensity to overpromise does not automatically result in actual overpromising. The reason of this is that an effective horizontal communication minimises the chance of overpromising, even when the propensity to do so is high. Alternatively, a low propensity to overpromise, does not necessarily guarantee the absence of overpromising. Similarly, a lack of effective horizontal communication can lead to overpromising even when the propensity to do so is low. These results further reinforce the critical role of horizontal communication in closing Communication Gap (Gap 4).

4.3.5 Key Contributing Factors of the Service Quality Gap (Gap 5)

This section attempts to answer a key managerial question which involves the relative importance of the specific factor(s) in delivering excellent banking services. This provides feasible alternatives for bankers and marketers in justifying the most crucial factor(s) for immediate action as shown in Table 4-10. In this table, Xs represent the factors for which the regression coefficients were statistically significant ($p < 0.05$) in each institution. The primary data is shown in Attachment 1 (Table 6) and Attachment 2 (Tables 4, 5 and 6).

Table 4-10 Key Drivers of the Gap Factors that Are Statistically Significant

Standards Gap (Gap 2)

| Factors | Company 4 | Company 5 | ICU |
|--|-----------|-----------|-----|
| Management Commitment to Service Quality | | x | |
| Goal Setting | x | | x |
| Task Standardization | | | |
| Perception of Feasibility | | | |

Service Performance Gap (Gap 3)

| Factors | Company 4 | Company 5 | ICU |
|-----------------------------|-----------|-----------|-----|
| Teamwork | x | x | x |
| Employee Job Fit | x | | |
| Technology Job Fit | | | |
| Perceived Control | | x | x |
| Supervisory Control Systems | | | |
| Role Conflict | x | | |
| Role Ambiguity | | | x |

Communication Gap (Gap 4)

| Factors | Company 4 | Company 5 | ICU |
|---------------------------|-----------|-----------|-----|
| Horizontal Communication | x | | |
| Propensity to Overpromise | x | | |

Notes : -

- (1) Company 4 & 5 represents the two banks in the American study.
ICU represents the Illawarra Credit Union.
- (2) The primary data is shown in Attachment 1 (Table 6) and Attachment 2 (Tables 4, 5 and 6).

As shown in the Standards Gap (Gap 2) chart, the most significant contributing factors are management commitment to service quality and goal setting. Goal setting is significant in two of the three institutions, suggesting strongly that *goal setting* is critical in closing the gap between management's perception of customers' expectations and the standards they set to fulfill these expectations.

The most important factors in Service Performance Gap (Gap 3) include teamwork and supervisory control systems. Teamwork is significant in all three institutions, suggesting strongly that *teamwork* is critical in closing the gap between performance standards and service delivery.

The contributing factors for Communication Gap (Gap 4) are horizontal communication and propensity to overpromise, however, they are only significant in Company 4. Inconsistent service policies by different service delivery units and limited interaction between front line employees and operations personnel are the key factors for Gap 4.

Conclusions

The overall study has been to give possible approaches in (1) managing and marketing retail banking services in the contemporary banking and economic environment, and (2) measuring the retail banking service quality from the perspectives of both customers and the organisation. This has led to the conclusion that *a product-oriented and inward-looking banking institution found it easier to satisfy itself than to satisfy a customer, while a service-oriented and forward-looking banking institution found it difficult to satisfy a customer and was never satisfied with its service performance*. In keeping with this, it was found that the ultimate objective of service-oriented organisations was *customer satisfaction*. This total customer satisfaction was the overriding mission.

The key point of customer satisfaction was not found as the ability to provide the best products, the best services, the best operations systems, the best employees or the best prices to customers, rather, it was to provide those features of a product or service which would meet the unique needs of the customer. From this, it can be stated that "a best product or service does not necessarily equate with a quality product or service". The best and excellent quality product or service is the one which meets the most needs of the customer at a specific point of time and place. This implies that banking institutions must (1) conduct market research periodically in order to collect up-dated market information, and (2) revise their marketing policies and programs constantly. This will ensure that the banking needs of the targeted customers is the core of the marketing mix. Satisfying customers by meeting their banking needs and upgrading the level of service quality constantly are the most desirable ways of ensuring the competitive edge and maintaining the market share of an organisation. This paradox has universal application for contemporary banking institutions.

Second part of this study applied SERVQUAL as a measure of level of quality of the Illawarra Credit Union, NSW. These results were measured against that of the original American (1988) result in two retail banks and showed the efficacy of SERVQUAL. Both studies showed identical patterns in the service quality construct for both the customers' expectations of service and managers' perceptions of those expectations (Table 4-1 and Figure 4-1). These provided circumstantial evidence of the efficacy of SERVQUAL in measuring the level of retail banking quality on an industry wide basis in different geographic locations.

These identical patterns also suggest that both the America and Australia customers were similar in their desires and requirements of retail banking services along the five dimensions - reliability, responsiveness, assurance, empathy and tangibility. Comparing the two studies, Australian credit union's members had a higher expectations of services than did the American bank customers. Another pattern that emerged was that the perceptions of the current levels of quality of both lower level employees and managers were similar in all three institutions studied. They all perceived the same difficulties in satisfying customers and meeting the organisational goals simultaneously. Goal displacement and role conflict frequently occurred in the service production and delivery processes. This finding supports the proposition of most literature in services marketing and management that goal displacement and role conflicts occur regularly in services organisation regardless of geographic location and size.

The analysis, comparing the American study and the Illawarra Credit Union, provided a clearer picture of the expectations and perceptions of services from the perspectives of both customers and organisation. This result pinpointed some of the perceived operational and marketing problems which result in a lower level of quality. The key issues are as follows : -

Firstly, the results of both studies showed that most customers expected to have a reliable service. This implies that banking institutions need to perform the

promised service dependably and accurately, thus, they are the customers' measures of a service experience and how well it has been or is being performed. Reliability is a perception and involved a subject evaluation that the customer is the judge who determines whether the promise has been kept and fulfilled, and to what extent.

The provision of better operation systems, better recruiting procedures and training of employees, a better relationship between front line employees and the support staff, improved internal marketing, better involvement of the customers in the service delivery process, and better premises and facilities are some of the many desirable approaches to increasing service reliability. Building and maintaining a solid impression of "reliability" is not an easy task. Gaining the service commitment from all level of employees and fostering a service culture are the initial steps in achieving this goal. Meticulously done, this would be a long, slow process, but it has already been recognised that quality improvement is a never-ending process in implementing, a long term strategic plan.

Secondly, the results showed that both the American and Australian bankers have a misperception that customers are more concerned with the aspect of tangibility than the other four service quality dimensions (responsiveness, empathy, reliability and assurance). The following lengthy comments from members of the ICU in answer to the question of the dimension of tangibility highlight their view of retail banking services.

"An excellent credit union should be judged on how it performed not how it looks." (A male middle age respondent)

"I have never given this much thought, and in any case, I take it for granted. All banks these days have modern looking equipment, neatly dressed employees, etc." (a male middle aged professional)

"I feel that we pay for service not for the furnishings of the offices. Appearance does not make a good or should I say excellent credit union." (a female mid twenty receptionist with some high school education)

These comments pinpoint that the dimension of tangibility in the evaluation of retail banking services quality is the least important to the customers. This finding is contradictory to most propositions in the literature of services marketing, which advocate that service organisations should manipulate the tangibles clues for invisible service. It is not denied that providing modern looking equipment, designing visually appealing physical facilities, and a better design of communication material are unimportant or irrelevant, but they are not seen as major priorities for service by either American or Australian banking institution's customers. Additionally, the neat dressing of employees was taken for granted by customers.

Thirdly, the results showed that ineffectual *upward and horizontal communication* was a root cause for the lower level of quality in all the institutions studied. This finding suggests that market research information ought to be disseminated within the organisation and certainly to front line employees. The reason for this is that market research information helps service providers to understand the needs, motives and attitudes of most customers which, in turn, assists in upgrading the level of customer satisfaction.

Fourthly, both studies showed that bankers have failed to develop performance specifications which truly reflect the customers' expectations of services. This finding suggests that bankers frequently set service quality specifications according to their perceived knowledge of customers' expectations of services rather than consulting with the front line employees. The result of this is that the established service quality specifications may not consistent with the banking needs of most targeted customers. Conducting market research periodically, encouraging upward communication and minimising the number of levels of management are some desirable tactics to rectify this situation.

Fifthly, the results showed that front line employees frequently perceived difficulties in handling job related problems, in fact, there lack the authority to deal with problems. This finding suggests that having control over problems to be resolved is crucial in the entire process of service production and delivery. This

finding supports the proposition of most literature in organisational structure and control that banking institutions need to flatten their structure by adopting low formalisation and centralisation, which could eventually increase the flexibility of employees in handling daily duties.

Sixthly, the results showed that promises given by the organisation's market communication activities were not always consistent with the level of service delivered. This finding supports the literature on services marketing that most organisation are still in an "uncommitted" mode with respect to quality. They frequently offer lip service to customers on caring and responsiveness to their banking needs through all kinds of communication activities, whereas, it is found that customers' perception of quality is an accumulation of experiences from the many "moments of truth" with all the service providers of an organisation. Overpromising and/or providing lip service is likely to inflate customers' expectations and consequently lead to diminish their level of perceived service quality. Banking institutions need to be truly proactive with respect to service quality and customer satisfaction. They need to ensure that communication activities about service quality must accurately reflect the real situation. Specifically, overpromising and/or proving lip service should not happen in both internal and external communication activities.

Significantly for the Illawarra Credit Union, the results showed that it had relatively less operational and marketing problems than the two American banks. This may be due to the success of the implementation of the "Team Excellence Program" of the ICU. In conjunction with the above, the following points are noteworthy for the ICU in designing and implementing the quality improvement program. These are : -

1. developing an informal process for setting quality of service goals for lower level of employees;
2. encouraging and rewarding for improving quality;
3. emphasising the importance of teamwork;

4. identifying clearly the criteria for performance appraisal.

These four points are but guidelines for continuous improvement. Most importantly, the ICU needs to provide concrete evidence of service improvement effort on all five dimensions, reliability in particular. The objective of that service quality improvement program should follow the suggestion of a member respondent, a female mid-twenties government employee who wrote, "I would recommend the excellent credit union if there is ever one made!! I have not yet found a credit union that provides all the services I want." Clearly, providing all the desired services at the customer's expected level is a Utopian dream of both retail banking services providers and their customers.

The application of a replication of SERVQUAL at the Illawarra Credit Union was considered to be a success. The relatively smaller sample sizes of members (396), lower level employees (66) and senior executives (14) should not be seen to lessen the representative of the study within the Australian credit union community. The results of the Chi-Square Goodness-of-fit test showed that the construct of the gender distribution of member respondents was representative of both the Australian credit union membership and the Australian population generally. This finding gives further support that : - (1) the viewpoints expressed by member respondents could be seen as representation the Australian credit union community and the Australian population at large and (2) the comments of the lower level employees and senior executives might be limited to the Illawarra Credit Union only. Nevertheless, this study had proven to be a useful intermediary step for further investigation on the issue of retail banking services quality in the Australian banking industry and certainly to the Australian credit union industry.

Reference

Aaker David A. (1990). Marketing Research. Fourth Edition. John Wiley & Sons.

Abratt R. (1989). A New Approach to the Corporate Image Management Process. Journal of Marketing Management. 5(1) : 63-76.

Ackland R. & Harper I.R. (1990). Financial Deregulation in Australia : Bone or Bane ?. Paper Presented to the Economists Conference. University of New South Wales. Sydney.

Albrecht Kal (1988). At American's Service : How Corporations Can Revolutionize the Way They Treat Their Customers. Dow Jones-Irwin. Homewood, Ill.

Atkinson P. & Murray B. (1988). Striving for Excellent : the Service Sector. Total Quality Management. An IFS Executive Briefing. Chase Rosy L. (Ed.). IFS Publication, U.K.

Assael Henry (1990). Marketing : Principles and Strategy. The Dryden Press.

Australian Bankers' Association (1990). Australian Bankers' Association Submission to the Parliamentary Inquiry into the Australian Banking Industry. December 1990.

Australian Financial System (1980). Interim Report of the Committee of Inquiry May 1980. Australian Government Publishing Service. Canberra.

Australian Financial System (1984). Report of the Review Group December 1983. Australian Government Publishing Service. Canberra.

Baker Julie M. (1976). Marketing : Theory and Practice. Macmillan. London.

Baker Julie M., Berry Leonard L. & Parasuraman A. (1988). The Marketing Impact of Branch Facility Design. Journal of Retail Banking 2 : 33-42.

Ballantyne David (1986). Service Concepts and the Retail Banking Environment. The Australian Banker 100(6) : 228-231.

Ballantyne David (1987). Market Research Insights into the Revolution in Retail Banking. Australian Marketing Researcher 11(1) : 20-25.

Bateson John E. (1992). Managing Services Marketing. The Dryden Press. Second Edition.

Bell Jim (1990). Metrology. Gower Handbook of Quality Management. Lock Dennis & Smith David J. (Ed.). Gower.

Belonax Joseph J. & Aaby Nils Eric (1990). Credit Union Determinant Attributes as Discriminating Factors in the Consumer's Financial Institution Choice Process. Journal of Professional Services Marketing 5(2) : 77-89.

----- (1991). Credit Union Image Variables - Discriminating Factors in the Consumer's Financial Institution Choice Process. Journal of Professional Services Marketing 6(2) : 203-212.

Berry Leonard L. (1980). Services Marketing is Different. Business Magazine 30(3): 24-29.

Berry Leonard L. (1981). The Employee as Customer. Journal of Retail Banking. March.

Berry Leonard L., Bennett David R., & Brown Carter W. (1989). Service Quality : A Profit Strategy for Financial Institutions. Dow Jones-IRWIN.

Berry Leonard L. & Kantak Donna Massey (1990). Personal Selling in the US Banking Industry : 1983 and 1988. Services Industries Journal (UK). 10(1) : 5-24.

Berry Leonard L., Zeithaml Valarie A. & Parasuraman A. (1990). Five Imperatives for Improving Service Quality. Sloan Management Review. 2:29-38.

Berry Leonard L. & Parasuraman A. (1991). Marketing Services : Competing Through Quality. The Free Press. New York.

Bhagwati Jagdish N. & Srinivasan T. N. (1983). Lectures on International Trade. The MIT Press. Cambridge.

Blackert W. J. (1979). Credit Union Growth in Australia. Management Forum 5(2) : 97-102.

----- (1982). The Bank Branch System. The Bankers' Magazine of Australasia (2) : 12-13.

Bolton Ruth N. & Drew James H. (1991). A Longitudinal Analysis of the Impact of Service Changes on Customer Attitudes. Journal of Marketing 55(1) : 1-9.

Booms B. H. & Bitner M. J. (1981). Marketing Strategies and Organization Structure for Services Firms. Marketing of Services. Donnelly J. & George W. R. (Ed.). American Marketing Association. Chicago. pp.47-51.

Booth J. D. (1981). Competition Between Savings Banks and Other Types of Financial Institutions. The Bankers' Magazine of Australasia. 95(Oct) : 175-177.

Brandt Randall D. (1988). How Service Marketers Can Identity Value-Enhancing Service Elements. The Journal of Services Marketing. 2(3) : 35-41.

Brealey Richard A. & Myers Stewart C. (1991). Principles of Corporate Finance. Fourth Edition. International Edition. McGraw-Hill.

Brown S. W. & Swartz, T. A. (1989). A Gap Analysis of Professional Service Quality. Journal of Marketing. 53(2) : 96-97.

- Brown Tom. J., Churchill, Gilbert A. & Peter Paul J. (1993). Research Note : Improving the Measurement of Service Quality. Journal of Retailing. 69(1). pp.127-139.
- Bruce Robert, Mckern Bruce, Pollard Ian & Skully Michael (1991). Handbook of Australian Corporate Finance, Fourth Edition, Butterworths.
- Burke Edmund (1986). Quality in the Boardroom. Are they Being Served? Moores Brian (Ed.) Philip Allan.
- Callaghan Mervyn J., Young Keith E. A. & Kelly Tom (1982). Yesterday, Today and Tomorrow. Australian Credit Union 3 : 12-14.
- Cannon-Brookes Michael J. (1985). Revolutionary Change : The Development of Australia's Financial System. Professional Administrator 37(2) : 14-16.
- Carman James M. & Langcard (1989). Growth Strategies for Service Firms. Managing Services Marketing. Edited by Bateson John E. G. The Dryden Press.
- Cateora Philip R. (1987). International Marketing. Sixth Edition. IRWIN. Illinois.
- Cole Margaret & Cutler Bruce (1989). Australia. International Financial Law Review (UK) Supplement Nov : 9-13.
- Compton Fran F, George William R., Gronroos Christian & Karvinen Matti (1987). Internal Marketing. The Services Challenge : Integrating for Competitive Advantage. Czepiel John A, Congram Carole A. & Shanahan James (Ed.). American Marketing Association.
- Cooke Rhonda (1989). Credit Union Management : Aussie Style. Credit Union Management. Aug : 22-26.
- Cottrell, Robert (1985). On the defensive ? Far Eastern Economic Review. Aug: 46-47.
- Cowell Donald W. (1987). The Marketing of Services. Willian Heinemann Ltd. London.
- Crapp Harvey & Skully Michael T. (1985). Credit Unions For Australian. George Allen & Unwin, Sydney.
- Croisdale-Appleby David (1985). Target Marketing of Financial Services. The Australian Banker 2 : 14-40.
- Crosbie Richard (1982). Australian Credit Unions Today : Dynamic or Reactionary ? Australian Credit Unions 8 : 10-14.
- Crosby Philip B. (1979). Quality is Free : The Art of Making Quality Certain. McGraw-Hill.

- Dale B. G., Lascelles D.M. & Plunkett J.J. (1990). The Process of Total Quality Management. Management Quality. Dale B.G. & Plunkett J.J. (Ed). Philip Allan.
- Daniels David (1989). Credit Union Regulation - The Importance of Institutional Characteristics. Australian Credit Unions Magazine 2 : 7-9.
- Davis K.T (1988). Thrift Institutions. Australia's Financial Institutions and Markets. Lewis M.K. & Wallace R.H. Ed. Longman Cheshire.
- Dawson Patrick (1991). Total Quality Management in the Australian Banking Industry. International Journal of Quality and Reliability Management. 8(5) : 66-76.
- Deming W. Edwards (1982). Quality, Productivity and Competitive Position. MIT, Cambridge, Mass.
- Devore Jay & Peck Roxy (1986). Statistics : The Exploration and Analysis of Data. West Publishing Company. New York.
- Donnelly James H., Berry Leonard L. & Thompsons Thomas W. (1985). Marketing Financial Services : A Strategic Vision. Dow Jones-IRWIN.
- Dunstan J. (1980). Credit Unions - Growth and Diversification. The Bankers' Magazine of Australiasia 8 : 154-158.
- Edmister Robert O. (1986). Financial Institutions : Markets and Management. Second Edition. McGraw-Hill Book company. New York.
- Ennew C. T. & Wright M. (1990). Retail Banks and Organizational Change : Evidence from the UK. International Journal of Bank Marketing 8(1) : 4-9.
- Feigenbaum A. V. (1961). Total Quality Control. New York.
- Feigenbaum A.V. (1983). Total Quality Control. McGraw Hill.
- Fick Garin R. & Brent Ritchie J. R. (1991). Measuring Services Quality in the Travel and Tourism Industry. Journal of Travel Research. (Fall) : 2-9.
- Fish Raymond P., Brown Stephen W. & Bitner Mary J. (1993). Tracking the Evolution of the Service Marketing Literature. Journal of Retailing. 69(1) : 61-103.
- Fisher Thomas J. (1992). The Impact of Quality Management on Productivity. International Journal of Quality and Reliability Management. 9(3):44-52.
- Flanagan John (1990). The Transition to Total Quality Management. Working Paper. Department of Management. University of Wollongong.
- Fraser Bernie (1992). Prospects For Banks in Australia. The Australian Banker. Journal of Australian Institute of Banker. 106(3) : 133-137.

Frost Fred & Kelly David (1986). The Future of Retail Banking. A Marketing Perspective. Economic Papers : The Economic Society of Australia 5(1) : 41-50.

Garvin D. A. (1988). Managing Quality. The Free Press. New York.

Gensch Dennis H. & Javalgi Rajshekhar G. (1991). Strategies for Providing Financial Information for the Affluent Market in the Retail Banking Industry. Journal of Professional Services Marketing 6(2) : 143-155.

Goodstadt Paul & Marti Richard (1990). Quality Service at National Westminster Bank - the Continual Striving for Excellent. International Journal of Quality & Reliability Management 7(4) : 19-28.

Gray Janet L. & Harvey Thomas W. (1992). Quality Value Banking. John Wiley & Sons Inc.

Gronroos Christian (1978). A Service-Oriented Approach to Marketing of Services. European Journal of Marketing. 12(8) : 88-601.

----- (1979). Marketing Services. Ann Arbor. Mich. University Microfilms.

Gronroos Christian (1982). Strategic Management and Marketing in the Service Sector. Helsingfors : Swedish School of Economics and Business Administration.

----- (1983a). Innovative Marketing Strategies and Organizational Structures for Service Firms. Emerging Perspectives in Services Marketing. Berry Leonard L., Shostack Lynn G. & Upah Gregory D (Ed). Chicago : American Marketing Association, Chicago. pp.9-21.

----- (1983b). Strategic Management and Marketing in the Service Sector. Cambridge, Mass. Marketing Science Institute.

----- (1984). A Service Quality Model and its Marketing Implications. European Journal of Marketing. 18(4) : 36-44.

----- (1990). Service Management and Marketing : Managing the Moments of Truth in Service Competition. Lexington Books. Lexington, Mass.

Grocock J. M. (1986). The Chain of Quality : Market Dominance Through Product Superiority. John Wiley & Sons. New York.

Gummesson Evert (1981). Marketing Cost Concept in Service Firms. Industrial Marketing Management. No.3.

----- (1988). Service Quality and Product Quality Combined. Review of Business. 9(3) : 14-19.

----- (1991). Marketing-Orientation Revisited : The Crucial Role of the Part-Time Marketer. European Journal of Marketing. 25(2).

Hall John A. (1986). Merchant Banking Australia - A. D. (After deregulation). The Australia Banker 100(4) : 167-170.

Hill Maximilian (1987). Financial Deregulation : A Comparative Study of Australia and the United Kingdom. Macmillian Press.

Imai M. (1986). Kaizen the Key to Japan's Competitive Success. Random House.

Ishikawa K. (1985). What is Total Quality Control? The Japanese Way. Prentice Hall.

Itoh Seiichi (1985). World Winds of Change Reach Australia. Professional Administrator 37(2) : 11-13.

Ivancevich John M. & Matteson Michael T. (1990). Organizational Behavior and Management. Second Edition. IRWIN.

Jacobson R. & Aaker D. A. (1987). The Strategic Role of Product Quality. Journal of Marketing. 51(Oct) : 31-44.

Juran Joseph. M. (1974). Quality Control Handbook. McGraw Hill. New York.

----- (1988). Quality Control Handbook. Second Edition. McGraw Hill. New York.

Kennedy S.H. (1977). Nurturing Corporate Images : Total Communications or Corporate Ego Trip?. European Journal of Marketing. 119(1) : 120-124.

Khoury Sarkis J. (1990). The Deregulation of the World Financial Markets. Quorum Books. New York.

Kloot Louise & Richardson Antoinette (1990). The Implications of the Development of a National EFT System Network in Australia. Faculty of Business Staff Papers. Swinburne Institute of Technology. Victoria.

King Carol A. (1987). A Framework For a Service Quality Assurance System. Quality Process (Sept) : 27-32.

Knight Henry & Peasgood Wayne (1989). Credit Union Performance Improvement : Practical Ideas for Directors and Managers. Credit Unions Executive Society. Coopers & Lybrand. Probus Publishing Co. Chicago, Illinois.

Labour Statistics Australia (1990). Australia Bureau of Statistics Catalogue No.6101.0

Langdon Ian A. (1980). Analysis of Victoria Credit Co-operatives. The Professional Administrator. Jan-Mar : 43-47.

Lee, M. (1989). Contingency Approach to Strategies for Service Firms. Journal of Business Research 19 : 293-301.

- Lewis Barbara R. (1989). Quality in the Service Sector : A Review. International Journal of Bank Marketing (UK). 7(5) : 4-12.
- Lewis Donald E. & O'Brien Dennis T. (1990). Statistics for Business and Economics. Harcourt Brace Jovanovich, Sydney.
- Lewis M.K. & Wallace R. H. (1988). The Australian Financial System : A Brief Overview. Australia's Financial Institutions and Markets. Lewis M.K. & Wallace R.H. (Ed). Longman Cheshire.
- Lewis Robert C & Booms Bernard H. (1983). The Marketing Aspects of Service Quality. Emerging Perspectives on Services Marketing. Berry Leonard, Shostack G. & Upah G. (Ed.). American Marketing Association. Chicago, 99-107.
- Lim G. C. & Valentine T. J. (1988). Trading Banks. Australia's Financial Institutions and Markets. Lewis M.K. & Wallace R. H. (Ed.). Longman Cheshire.
- Lovelock Christopher (1981). Why Marketing Management Needs to Be Different for Services. In Proceedings of the AMA Special Conference on Services Marketing. Donnelly J. & George W.R. (Ed.). Orlando, Florida : AMA.
- (1991). Services Marketing. Second Edition. Prentice-Hall International, Inc.
- Mangold Glynn W. & Babakus Emin (1991). Service Quality : the Front Stage vs the Back Stage Perspectives. The Journal of Services Marketing. 5(4) : 59-70.
- Mason Berry J., Langrehr Frederick, & Lollar James (1984). Targeting the Credit Union Customer. Journal of Retail Banking 6 : (64-72).
- Moore David B., Lyell Don B.A., Wheller Denise B., Tongzon Jose B. A., & Crane Rod (1988). Financial Institutions and Markets. Serendip Publications.
- Moore David B., Lyell Don B.A., Wheller Denise B., Tongzon Jose B. A., & Crane Rod (1992). Financial Institutions and Markets. Third Edition. Serendip Publications.
- Morgan Neil A. (1992). The Marketing-Quality Management Interface. Quality Management in Services. Kunst Paul & Lemmink Jos (Ed). Van Gorcum, Assen/Massstricht.
- Morris Barbara & Johnston Robert (1987). Dealing With Inherent Variability : The Difference Between Manufacturing and Service? International Journal of Operations and Production Management. 7(4) : 13-22.
- Mortiboys Ron (1986). Quality in the Boardroom. Are They Being Served ?. Moores Brian (Ed.) Philip Allan.
- Nemoto M. (1987). Total Quality Control for Management. Prentice Hall.

- Normann R. (1984). Service Management. New York, John Wiley.
- Oakland J. S. (1989). Total Quality Management. Heinemann. Oxford.
- Olins W. (1989). Corporate Identity. Thames and Hudson. London.
- Parasuraman A. (1987). Customer-Oriented Corporate Cultures are Crucial to Services Marketing Success. The Journal of Services Marketing. 1(1) : 39-46.
- Parasuraman A. (1991). Marketing Research. Second Edition. Addison Wesley Publishing Co.
- Parasuraman A., Zeithaml Valarie A., & Berry Leonard L. (1985). A Conceptual Model of Service Quality and its Implications for Future Research. Journal of Marketing 49(Fall) : 41-50.
- Parasuraman A., Zeithaml Valarie A. & Berry Leonard L. (1988). SERVQUAL : A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality. Journal of Retailing 64(1) : 13-40.
- Parasuraman A., Berry Leonard L. & Zeithaml Valarie A. (1991). Understanding Customer Expectations of Service. Sloan Management Review. 3 : 39-48.
- Pauly Louis W. (1987). Foreign Banks in Australia : The Politics of Deregulation. Australian Professional Publications in associations with the Centre for Money, Banking and Finance. Macquarie University.
- Perkins J. O. N. (1982). The Australian Financial System after the Campbell Report. Melbourne University Press.
- (1989). The Deregulation of the Australian Financial System : The Experience of the 1980s. Melbourne University Press.
- Pickett Les (1992). Quality Management Programs. Corporate Management. 44(3) : 114-116.
- Pope David (1991). Bank Deregulation Yesterday and Today : Lessons of History. The Role of Longrun Analysis in Economics. Economic History Conference Australian National University. 11-12 July, 1991. Working Paper No.156. The Australian National University.
- Price Frank (1986). How Does Britain Rate on Quality?. Are They Being Served? Brian Moores (Ed.). Philip Allan. Oxford.
- (1990). Gower Handbook of Quality Management. Dennis Lock (Ed.) Gower.
- Reinecke Ian (1988). The Money Masters : Banker, Power and Economic Control. Australian Print Group.

- Richardson Antoinette (1989). The Development of a National EFT System Network in Australia. Faculty of Business Staff Papers. Swinburne Institute of Technology. Victoria.
- Robbins Stephen P. (1991). Organizational Behaviour : Concepts, Controversies and Applications. Prentice Hall International Inc.
- Runcle N. (1969). Credit Unions in the South Pacific. University of London Press.
- Ryan Dermot (1987). The History of the Australian Credit Union Movement. Australian Corporate History Bulletin 3(1) : 13-14.
- Schmidt Sandra L. & Debevec Kathleen (1991). Positioning Strategy for Credit Unions : Know Thy Niche. Journal of Professional Services Marketing 7(1) : 133-145.
- Scholters Peter R. (1988). The Team Handbook : How to Use Teams to Improve Quality. Joiner Association Ltd.
- Shingeo S. (1986). Zero Quality Control : Source Inspection and the Poka-Yoke System. Productivity Press. Cambridge, MA.
- Shostack Lynn G. (1977). Breaking Free from Product Marketing. Journal of Marketing (April) : 73-80.
- Skully M. T. (1979). The Diversification of Australia's Trading Banks. Working Papers No.2 Centre for Securities Industry Studies. Kuring-Gai College of Advanced Education. Australia.
- Smith Llory R. (1986). Retail Banking : Recent Developments and the Future. The Australian Banker 100(6) : 237-241.
- (1987). Retail Banking : A Traditional Bank View. In Proceedings of Banking and Finance Conference. Australian Institute of Bankers. Melbourne.
- Snider Delbert A. (1971). Introduction to International Economics. Fifth Edition. Richard D. Irwin, Inc. Homewood. Illinois.
- Stanton W. J. (1981). Fundamentals of Marketing. McGraw-Hill. New York.
- Stewart Kathryn (1991). Corporate Identity : A Strategic Marketing Issue. Internal Journal of Bank Marketing 9(1) : 32-39.
- Taguchi G. (1986). Introduction to Quality Engineering. Asian Productivity Organization. New York.
- Teas Kenneth R. & Wong John (1991). Measurement of Customer Perceptions of the Retail Bank Service Delivery System. Journal of Professional Services Marketing 7(1) : 147-167.

- Thomas Richard L. (1987). Bank on Quality. Quality Progress. February : 27-29.
- Turley L. W. (1990). Strategies For Reducing Perceptions of Quality Risk In Services. The Journal of Services Marketing. 4(3) : 5-11.
- Tyree, Alan L. (1990). Banking Law in Australia. Butterworths Pty. Ltd.
- Ullmer Michael & Buttle John (1992). Australian Banking : That Was the Year That Was. The Australian Banker. Journal of the Australian Institute of Bankers 106(1) : 11-20.
- Valentine Tom J. (1990). Why the Australian Banking System Was Deregulation. Working Papers in Economic History. Australian National University.
- Vandermerwe Sandra & Chadwick Michael (1991). The Internationalization of Services. Services Marketing. Edited by Lovclock Christopher H. Prentice Hall International Editions.
- Vittas Dimitri & Frazer Patrick (1983). Retail Banking in Australia and other Major Countries. The Bankers' Magazine 97(2) : 76-80.
- Walker Mile (1983). Retail Banking Services - The Marketing Challenge. The Bankers' Magazine 12 : 210-212.
- Warner Bill (1989). Australia's Financial Markets : An Introduction. Allen & Unwin
- White Robert. J. (1983). Outlook for the Australian Banking System. The Bankers' Magazine 97(2) : 84-86.
- (1987). Implications of a Widened Banking Industry. Professional Administrator. Apr/May 37(2) : 8-10.
- Why Bank, when you can 'Credit Union'?. Association of New South Wales Credit Union Limited.
- William Shirless (1986). Community Based Finance. Community Quarterly 8 : 4-10.
- Williams Richard J. (1992). The Implications For Banks. The Australian Banker. Oct : 257-260.
- Zeithaml Valarie A. (1981). How Consumer Evaluation Processes Differ Between Goods and Services. Marketing of Services. Edited by James H. Donnelly and William R. George. American Marketing Association, Chicago. pp.186-190.
- Zeithaml Valarie A., Parasuraman A., & Berry Leonard L. (1985). Problems and Strategies in Services Marketing. Journal of Marketing 49:33-46.

Zeithaml Valarie A., Berry Leonard L. & Parasuraman A. (1988). Communication and Control Processes in the Delivery of Service Quality. Journal of Marketing (April) 52:35-48.

Zeithaml Valarie A., Parasuraman A., & Berry Leonard L. (1990). Delivering Quality Service. The Free Press. New York.

Zenoff David B. (1989). Introduction : Perspectives on Financial Services Marketing. In Marketing Financial Services. Ballinger Publishing Company.

APPENDICES

**Appendix 1 : Letter Issued by the Reserve Bank of Australia in
Confirming the Financial Crises Happened between
1987 to 1991**

**Appendix 2: Chronology of Australian Financial Market
Deregulation**

**Appendix 3: Letter Issues by the Macmillian Publishing Company
Giving Permission to use the SERVQUAL Instrument**

Appendix 4: Cover Letter for the Survey Questionnaire

Appendix 1



RESERVE BANK OF AUSTRALIA

65 MARTIN PLACE

G.P.O. BOX 3947 SYDNEY 2001

TELEPHONE (02) 551 8111

IN REPLY PLEASE QUOTE

SD

10 March 1993

Ms Karin Cheung
Department of Management
University of Wollongong
PO Box 1144
WOLLONGONG NSW 2500

Dear Ms Cheung,

I refer to your facsimile message of 19 February 1993 asking about certain "financial crises".

There have been official press releases issued concerning some of the institutions in your list and copies of these releases are attached for your information. Apart from that, you may find it useful to canvass the general and specialist newspapers of the times.

Best wishes with your research.

Yours sincerely,

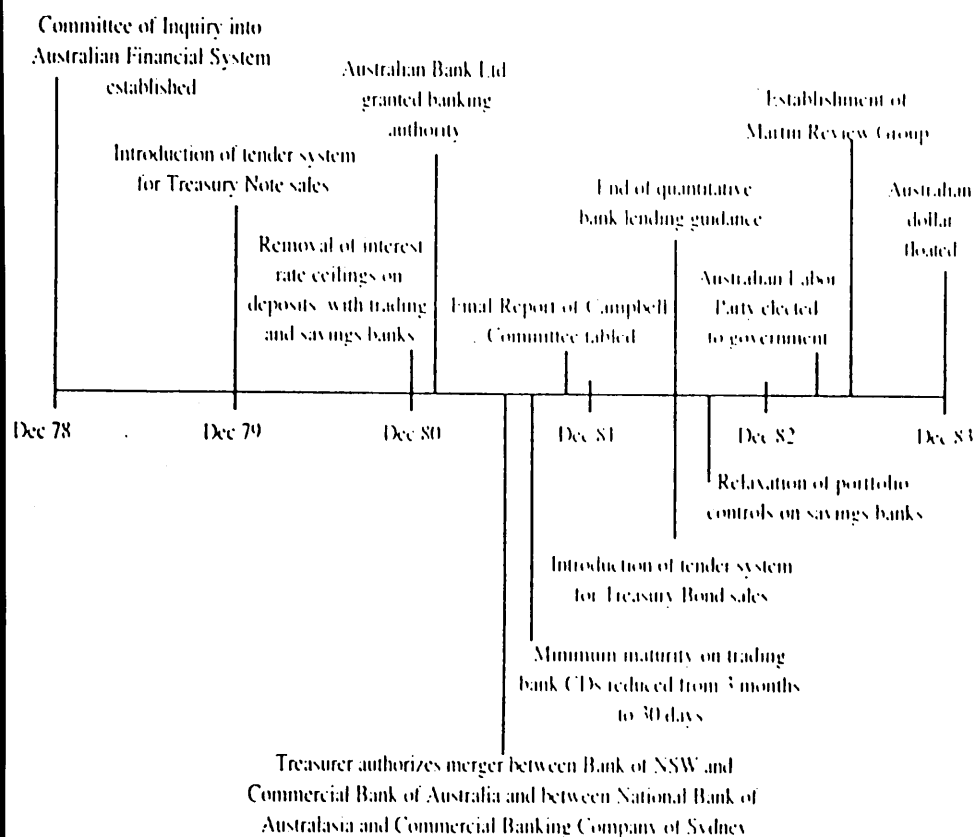
K.J. Broadhead (Ken)
Senior Community Relations Officer
Information Office
Secretary's Department

Encls

ATTACHMENT

1. WA Teachers Credit Union – 7 August 1987: Press Release (encl) by Premier and Treasurer
2. Swan Building Society – May 1991: Administrator appointed – no press release available
3. OST Friendly Society – July 1990: taken over by IOOF – no press release available
4. Moe District Credit Union – January 1990: placed under administration – no press release available
5. Pyramid Building Society – 13 February 1990: press release (encl) by Treasurer and Auditor-General
 - 1 July 1990: press release (encl) by Administrator
 - 2 July 1990: press release (encl) by Reserve Bank
 - 3 July 1990: press release (encl) by Premier
6. State Bank of Victoria – 23 February 1990: press release (encl) by Treasurer of Victoria
7. State Bank of South Australia – 10 February 1991: press release (encl) by Premier of South Australia

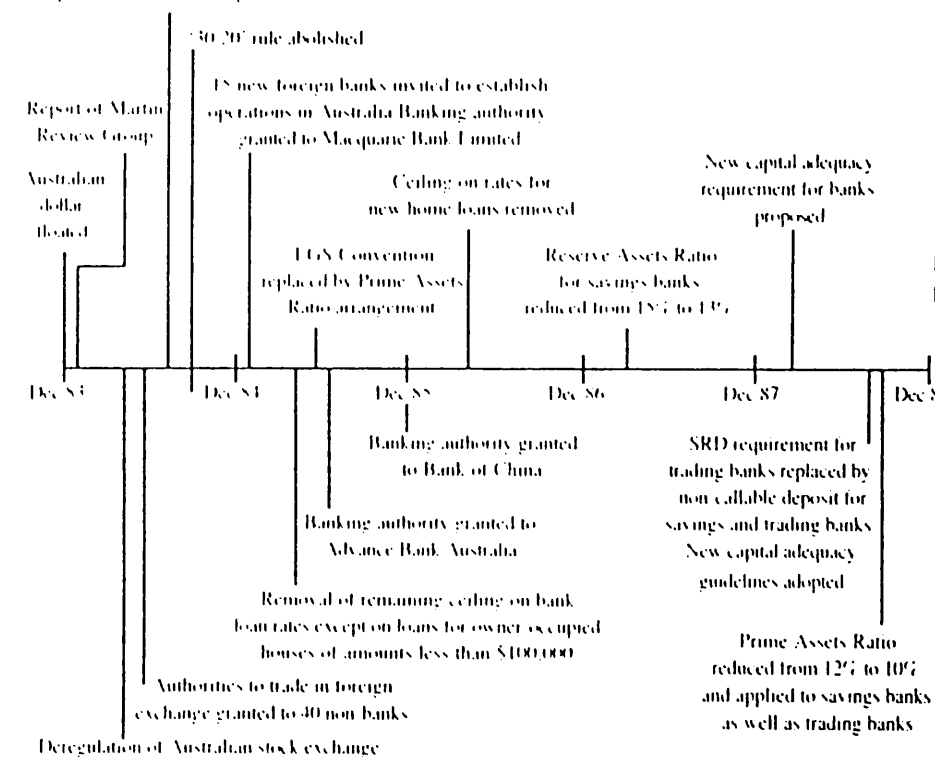
CHRONOLOGY OF FINANCIAL MARKET DEREGULATION



Sources: Australian Financial System; Report of the Review Group (Martin Report), p. 35-46. Reserve Bank of Australia, *Report and Financial Statement*, 30 June 1985, p. 22-4. Reserve Bank of Australia, *Bulletin*, various issues.

The chart for the period to December 1985 is derived, with permission, from Ian R. Jarpe, 'Why Financial Deregulation?', Australian National University Centre for Economic Policy Research Discussion Paper No. 132.

Removal of minimum and maximum maturities on trading and savings bank interest bearing deposits. Savings banks permitted to offer cheque facilities on all accounts.



Appendix 3

Macmillan Publishing Company
A Division of Macmillan, Inc.
866 Third Avenue, New York, NY 10022-0299

September 14, 1992

Permissions Department
212-702-5600
212-605-4860 fax

Karin Cheung
Department of Management
The University of Wollongong
P.O. Box 1144, Wollongong
NSW 2500
Australia

Dear Ms. Cheung:

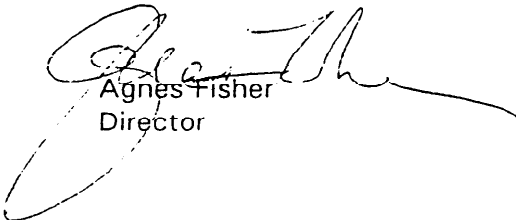
In reply to your letter of August 20, you have our permission to use the SERVQUAL instrument from DELIVERING QUALITY SERVICE by Valarie A. Zeithaml, A. Parasuraman, and Leonard L. Berry, in your thesis and in all copies to meet degree requirements including University Microfilms International Edition. New permission is required if the thesis is later accepted for publication.

The following acknowledgement is to be reprinted in all copies of your thesis:

From DELIVERING QUALITY SERVICE: Balancing Customer Perceptions and Expectations by Valarie A. Zeithaml, A. Parasuraman, and Leonard L. Berry. Copyright c 1990 by The Free Press, a Division of Macmillan, Inc. Used with the permission of the publisher.

Best wishes.

Sincerely yours,



Agnes Fisher
Director



Appendix 4

The
ILLAWARRA
CREDIT UNION Limited

Head Office: 38-40 Young Street, Wollongong. NSW 2500
Correspondence: P.O. Box 1784, Wollongong. NSW 2500
Telephone: (042) 29 5588 Facsimile: (042) 26 1032 DX No.: 5227

13th October 1992

MRS D M D POTTER
15 EAST STREET
RUSSELL VALE 2517

Dear MRS POTTER

The attached survey has been prepared by a Wollongong University Student, the confidential results of which will provide a research paper on "Improving the Service Quality in the Credit Union Movement".

Your Credit Union is pleased to support this project as our analysis of the consolidated results will allow us to further improve the levels of products and services available to members.

We seek your assistance in the completion and return of the survey sheet, with the assurance that all of your membership details will remain strictly confidential. Your name will never be used or known to the researcher.

Thank you in anticipation for your co-operation. Please return the completed questionnaire in the reply paid envelope provided at your earliest convenience.

Yours sincerely,

J P ERICKSON
GENERAL MANAGER

Encl:

EXHIBITS

Exhibit 1 : Member Satisfaction Survey (Perceptions Section)

Exhibit 2 : Member Satisfaction Survey (Expectations Section)

Exhibit 3 : Employee Opinion Survey

Exhibit 4 : Executive Opinion Survey

Exhibit 1

1

MEMBER SATISFACTION SURVEY

To : All members

The following questionnaire relates to a study being conducted by a postgraduate management student of the University of Wollongong. The intention of the study is to have a better understanding of the expectations of members in relation to the quality of the financial service delivered by credit unions. In order to improve service quality, it is essential for credit unions to know more about your needs and expectations.

Firstly, we would like to ask you some general questions. Please tick (✓) your answer.

Your occupation :

- a. Executive or managerial
- b. Professional
- c. Government or military
- d. Sales
- e. Student
- f. Homemaker
- g. Retired
- h. Airline/travel industry employee
- i. Other (please specify) _____

Your age :

- a. under 18 years
- b. 18-24 years
- c. 25-34 years
- d. 35-49 years
- e. 50-64 years
- f. 65 or over

Your annual income :

- a. under \$5,400
- b. 5,401 to 20,700
- c. 20,701 to 36,000
- d. 36,001 to 50,000
- e. 50,001 and over

Your education :

- a. Some high school
- b. High school completed (Y12)
- c. Some College/University
- d. College/University graduate
- e. University postgraduate

Your sex :

- a. Male
- b. Female

=====
Part 1 :

Directions : The following statements relate to your feelings about the Illawarra Credit Union. For each statement, please show the extent to which you believe the Illawarra Credit Union has the feature described by the statement. **Please indicate the extent of agreement with the statement below by circling one of the seven numbers on the scale.**

The Illawarra Credit Union has modern-looking equipment.

Strongly Disagree

1 2 3 4 5 6 7

Strongly Agree

The Illawarra Credit Union's physical facilities are visually appealing.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The Illawarra Credit Union's employees are appear neat.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Materials associated with the service (such as pamphlets or statements) are visually appealing at the Illawarra Credit Union.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

When the Illawarra Credit Union promises to do something by a certain time, it does so.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

When you have a problem, the Illawarra Credit Union shows a sincere interest in solving it.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The Illawarra Credit Union performs the service right the first time.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The Illawarra Credit Union provides its services at the time it promises to do so.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The Illawarra Credit Union insists on error-free records.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in the Illawarra Credit Union tell you exactly when services will be performed.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in the Illawarra Credit Union give you prompt service.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in the Illawarra Credit Union are always willing to help you.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in the Illawarra Credit Union are never be too busy to respond to your requests.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The behaviour of employees in the Illawarra Credit Union instills confidence in you.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

You feel safe in your transactions with the Illawarra Credit Union.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in the Illawarra Credit Union are consistently courteous with you.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in the Illawarra Credit Union have the knowledge to answer your questions.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The Illawarra Credit Union gives you individual attention.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The Illawarra Credit Union has operating hours convenient to all its members.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The Illawarra Credit Union has employees who give you personal attention.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The Illawarra Credit Union has your best interests at heart.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees of the Illawarra Credit Union understand your specific needs.

Strongly Disagree

1

2

3

4

5

6

7

Strongly Agree

=====

Part 2 :

Directions : Listed below are five features which pertain to credit unions and the services they deliver. We would like to know the importance of these features when you evaluate the service quality of a credit union. **Please allocate a total of 100 points amongst the five features listed below according to the importance of each to you.** The more important a feature is to you, the more points you should allocate to it. Please ensure that the points you allocate to the five features total to 100.

1. The appearance of the credit union's physical facilities, equipment, personnel and communication materials. _____ points
 2. The credit union's ability to perform the promised service dependably and accurately. _____ points
 3. The credit union's willingness to help members and provide prompt service. _____ points
 4. The knowledge and courtesy of the credit union's employees and their ability to convey trust and confidence. _____ points
 5. The caring, individualized attention the credit union provides its members. _____ points
- Total points allocated** **100 points**
=====

Which one feature among the above five is **most important** to you?
(please enter the feature's number) _____

Which feature is **second** most important to you? _____

Which feature is **least** important to you. _____
=====

Suppose a friend of yours who has just moved to Australia asked you to recommend a credit union. Which credit union would you recommend? Why would you recommend that particular credit union?

Thank you for your cooperation. Please return this completed questionnaire in the reply paid envelope at your earliest convenience. Responses will be kept strictly confidential and used only for academic purposes.

Exhibit 2

1

MEMBER SATISFACTION SURVEY

To : All members

The following questionnaire relates to a study being conducted by a postgraduate management student of the University of Wollongong. The intention of the study is to have a better understanding of the expectations of members in relation to the quality of the financial service delivered by credit unions. In order to improve service quality, it is essential for credit unions to know more about your needs and expectations.

Firstly, we would like to ask you some general questions. Please tick (✓) your answer.

Your occupation :

- a. Executive or managerial
- b. Professional
- c. Government or military
- d. Sales
- e. Student
- f. Homemaker
- g. Retired
- h. Airline/travel industry employee
- i. Other (please specify) _____

Your age :

- a. under 18 years
- b. 18-24 years
- c. 25-34 years
- d. 35-49 years
- e. 50-64 years
- f. 65 or over

Your annual income :

- a. under \$5,400
- b. 5,401 to 20,700
- c. 20,701 to 36,000
- d. 36,001 to 50,000
- e. 50,001 and over

Your education :

- a. Some high school
- b. High school completed (Y12)
- c. Some University
- d. University graduate
- e. University postgraduate

Your sex :

- a. Male
- b. Female

=====

Part 1 :

Directions : The following statements have been made about an excellent credit union. We would like to ask you some specific questions on how you think an excellent credit union should operate. Please indicate the extent of agreement with the statement below by circling one of the seven numbers on the scale.

An excellent credit union will have modern-looking equipment.

Strongly Disagree

1 2 3 4 5 6 7

Strongly Agree

The physical facilities at an excellent credit union will be visually appealing.

| | | | | | | | |
|-------------------|---|---|---|---|---|---|----------------|
| Strongly Disagree | | | | | | | Strongly Agree |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Employees of an excellent credit union will appear neat.

| | | | | | | | |
|-------------------|---|---|---|---|---|---|----------------|
| Strongly Disagree | | | | | | | Strongly Agree |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Materials associated with the service (such as pamphlets or statements) will be visually appealing in an excellent credit union.

| | | | | | | | |
|-------------------|---|---|---|---|---|---|----------------|
| Strongly Disagree | | | | | | | Strongly Agree |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

When an excellent credit union promises to do something by a certain time, it will do so.

| | | | | | | | |
|-------------------|---|---|---|---|---|---|----------------|
| Strongly Disagree | | | | | | | Strongly Agree |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

When a member has a problem, an excellent credit union will show a sincere interest in solving it.

| | | | | | | | |
|-------------------|---|---|---|---|---|---|----------------|
| Strongly Disagree | | | | | | | Strongly Agree |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

An excellent credit union will perform the service right the first time.

| | | | | | | | |
|-------------------|---|---|---|---|---|---|----------------|
| Strongly Disagree | | | | | | | Strongly Agree |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

An excellent credit union will provide its services at the time it promises to do so.

| | | | | | | | |
|-------------------|---|---|---|---|---|---|----------------|
| Strongly Disagree | | | | | | | Strongly Agree |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

An excellent credit union will insist on error-free records.

| | | | | | | | |
|-------------------|---|---|---|---|---|---|----------------|
| Strongly Disagree | | | | | | | Strongly Agree |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Employees in an excellent credit union will tell members exactly when services will be performed.

| | | | | | | | |
|-------------------|---|---|---|---|---|---|----------------|
| Strongly Disagree | | | | | | | Strongly Agree |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Employees in an excellent credit union will give prompt service to members.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in an excellent credit union will always be willing to help members.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in an excellent credit union will never be too busy to respond to member requests.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

The behaviour of employees in an excellent credit union will instill confidence in members.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Members of an excellent credit union will feel safe in their transactions.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in an excellent credit union will be consistently courteous with members.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

Employees in an excellent credit union will have knowledge to answer members' questions.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

An excellent credit union will give members individual attention.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

An excellent credit union will have operating hours convenient to all its members.

Strongly Disagree Strongly Agree
1 2 3 4 5 6 7

An excellent credit union will have employees who give members personal attention.

Strongly Disagree

1 2 3 4 5 6 7

Strongly Agree

An excellent credit union will have the members' best interests at heart.

Strongly Disagree

1 2 3 4 5 6 7

Strongly Agree

The employees of an excellent credit union will understand the specific needs of its members.

Strongly Disagree

1 2 3 4 5 6 7

Strongly Agree

=====

Part 2 :

Directions : The following five features pertain to credit unions and the services they deliver. We would like to know how important each feature is when you evaluate the service quality of a credit union. **Please allocate a total of 100 points amongst the five features listed below according to how important each feature is to you.** (The more important a feature is, the more points you should allocate to it). Please ensure that the points you allocate to the five features total 100.

1. The appearance of the credit union's physical facilities, equipment, personnel and communication materials. _____ points
 2. The credit union's ability to perform the promised service dependably and accurately. _____ points
 3. The credit union's willingness to help members and provide prompt service. _____ points
 4. The knowledge and courtesy of the credit union's employees and their ability to convey trust and confidence. _____ points
 5. The caring, individualized attention the credit union provides its members. _____ points
- Total points allocated** **100 points**
=====

Which one feature among the above five is **most important** to you? (please enter the feature's number) _____

Which feature is **second** most important to you? _____

Which feature is **least** important to you? _____

=====

Suppose a friend who has just moved to Australia asked you to recommend a credit union. Which credit union would you recommend? Why would you recommend that particular credit union?

Thank you for your cooperation. Please return this completed questionnaire in the reply paid envelope at your earliest convenience. Responses will be kept strictly confidential and used only for academic purposes.

1

Department : Sex :
 Year(s) of services :
 Your education : some high school/high school completed (Y12)/
 some University or College/University or
 College graduate/University postgraduate

Part 1 :

Directions : Performance standards in companies can be formal (e.g. written, explicit, and communicated to employees) ; they can also be informal (e.g. verbal, implicit, and assumed to be understood by employees). For each of the following statements, please circle the number that best describes the extent to which performance standards are formalised in your credit union. If there are no standards in your credit union, please tick (✓) the appropriate box.

| | Only Informal Standard(s) | | | Full Formal Standard(s) | | | | No Standard(s) Exist |
|--|---------------------------|---|---|-------------------------|---|---|---|----------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | () |
| The appearance of the credit union's physical facilities, equipment, personnel, and communication materials. | | | | | | | | () |
| The ability of the credit union to perform the promised service dependably and accurately. | | | | | | | | () |
| The willingness of the credit union to help members and provide prompt service. | | | | | | | | () |
| The knowledge and courtesy of the credit union's employees and their ability to convey trust and confidence. | | | | | | | | () |
| The caring, individualized attention the credit union provides its members. | | | | | | | | () |

Part 2 :

Directions : Listed below are the same five features as listed in Part 1 which concerns an organisation's performance. Employees and organization units sometimes experience difficulties in achieving the standards established for them. For each statement below, please circle the number that best represents the degree to which your credit union and its employees are able to achieve the pre-determined performance standards.

| | Unable to Meet Standard(s) Consistently | | | | Able to Meet Standard(s) Consistently | | | No Standard(s) Exist |
|--|--|---|---|---|--|---|---|----------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | () |
| The appearance of the credit union's physical facilities, equipment, personnel, and communication materials. | | | | | | | | () |
| The ability of the credit union to perform the promised service dependably and accurately. | | | | | | | | () |
| The willingness of the credit union to help members and provide prompt service. | | | | | | | | () |
| The knowledge and courtesy of the credit union's employees and their ability to convey trust and confidence. | | | | | | | | () |
| The caring, individualized attention the credit union provides its members. | | | | | | | | () |

=====

Part 3 :

Directions : Very often, advertising, salespeople, and other company communications make promises about the level of service a company will deliver. However, it is not always possible for an organization to fulfil these promises. **Please circle the number that best describes your perception of how well these promises can be fulfilled by your credit union.**

| | ----- | | | | | ----- | |
|---|--|---|---|---|---|--|---|
| | Unable to Meet Promises Consistently | | | | | Able to Meet Promises Consistently | |
| | ----- | | | | | | |
| The appearance of the credit union's physical facilities, equipment, personnel, and communication materials. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The ability of the credit union to perform the promised service dependably and accurately. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The willingness of the credit union to help members and provide prompt service. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The knowledge and courtesy of the credit union's employees and their ability to convey trust and confidence. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The caring, individualized attention the credit union provides its members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| ===== | | | | | | | |

Part 4 :

Directions : The following statements are designed to measure your perceptions about your credit union and its operations. Please indicate your degree of agreement by circling one of the seven numbers next to each statement.

| | Strongly Disagree | | | | | | Strongly Agree | |
|--|----------------------|---|---|---|---|---|-------------------|--|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I feel that I am part of a team my branch or organizational units. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| Everyone in my branch or organizational unit contributes to a team effort in servicing members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I feel a sense of responsibility to help my fellow employees do their jobs well. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| My fellow employees and I cooperate more often than we compete. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I feel that I am an important member of this credit union. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I feel comfortable in my job in the sense that I am able to perform the job well. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| My credit union hires people who are qualified to do their jobs. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| My credit union gives me the tools and equipment that I need to perform my job well. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I spend a lot of time in my job trying to resolve problems over which I have little control. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I have the freedom in my job to truly satisfy my members' needs. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I sometimes feel a lack of control over my job because too many members demand service at the same time. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |

| | Strongly Disagree | | | | Strongly Agree | | | |
|---|----------------------|---|---|---|-------------------|---|---|--|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| One of my frustrations on the job is that I sometimes have to depend on other employees in serving my members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| My supervisor's appraisal of my job performance includes how well I interact with members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| In our credit union, making a special effort to serve members well does not result in more pay or recognition. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| In our credit union, employees who do the best job serving their members are more likely to be rewarded than other employees. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| The amount of paperwork in my job makes it hard for me to effectively serve my members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| The credit union places so much emphasis on selling to members that it is difficult to serve members properly. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| What my members want me to do and what management wants me to do are usually the same thing. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| My credit union and I have the same ideas about how my job should be performed. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I receive a sufficient amount of information from management concerning what I am supposed to do in my job. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I often feel that I do not understand the services offered by my credit union. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I am able to keep up with changes in my credit union that affect my job. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |

| | Strongly Disagree | | | | Strongly Agree | | | |
|--|-------------------|---|---|---|----------------|---|---|--|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I feel that I have not been well trained by my credit union in how to interact effectively with members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I am not sure which aspects of my job my supervisor will stress most in evaluating my performance. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| The people who develop our advertising consult employees like me about the realism of promises made in the advertising. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| I am often not aware in advance of the promises made in our credit union's advertising campaigns. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| Employees like me interact with operations people to discuss the level of service the credit union can deliver to members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| Our credit union's policies on serving members are consistent in the different offices that service members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| Intense competition is creating more pressure inside this credit union to generate new business. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| Our key competitors make promises they cannot possibly keep in an effort to gain new members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |

Thank you for your cooperation. Please return this completed questionnaire to your Management Office at your earliest convenience. All the information that you have supplied will be treated with the strictest confidence. You may use the space below for any additional opinion(s) or comment(s) that you would like to make.

Exhibit 4

1

EXECUTIVE OPINION SURVEY

To : All Managers

Excellence in customer service is the hallmark of success in service industries. However, what exactly is excellent service? In general, it is the ability to deliver what you promise. Before you determine what you can promise, it is highly desirable to understand the expectation and perception of your members. In addition, the importance of having a harmonious working environment in your organization should not be overlooked. Therefore, this survey is designed to understand your perception of your members' expectations and the present working conditions in your credit union for your employees.

Part 1 :

Directions : The following statements deal with your perception about how your members would rate the service quality of an excellent credit union. Please indicate the extent to which in your opinion your members feel that an excellent credit union would possess the feature described by each statement. **Please circle one of the seven numbers on the scale.**

An excellent credit union will have modern-looking equipment.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

The physical facilities at an excellent credit union will be visually appealing.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

Employees of an excellent credit union will appear neat.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

Materials associated with the service (such as pamphlets or statements) will be visually appealing in an excellent credit union.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

When an excellent credit union promises to do something by a certain time, it will do so.

Our Members Would
Strongly Disagree

1 2 3 4 5 6

Our Members Would
Strongly Agree

7

When a member has a problem, an excellent credit union will show a sincere interest in solving it.

Our Members Would
Strongly Disagree

1 2 3 4 5 6

Our Members Would
Strongly Agree

7

An excellent credit union will perform the service right the first time.

Our Members Would
Strongly Disagree

1 2 3 4 5 6

Our Members Would
Strongly Agree

7

An excellent credit union will provide their services at the time it promises to do so.

Our Members Would
Strongly Disagree

1 2 3 4 5 6

Our Members Would
Strongly Agree

7

An excellent credit union will insist on error-free records.

Our Members Would
Strongly Disagree

1 2 3 4 5 6

Our Members Would
Strongly Agree

7

Employees in an excellent credit union will tell members exactly when services will be performed.

Our Members Would
Strongly Disagree

1 2 3 4 5 6

Our Members Would
Strongly Agree

7

Employees in an excellent credit union will give prompt service to members.

Our Members Would
Strongly Disagree

1 2 3 4 5 6

Our Members Would
Strongly Agree

7

Employees in an excellent credit union will always be willing to help members.

Our Members Would
Strongly Disagree

1 2 3 4 5 6

Our Members Would
Strongly Agree

7

Employees in an excellent credit union will never be too busy to respond to member requests.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

The behaviour of employees in an excellent credit union will instill confidence in members.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

Members of an excellent credit union will feel safe in their transactions.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

Employees in an excellent credit union will be consistently courteous with members.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

Employees in an excellent credit union will have knowledge to answer members' questions.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

An excellent credit union will give members individual attention.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

An excellent credit union will have operating hours convenient to all its members.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

An excellent credit union will have employees who give members personal attention.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

An excellent credit union will have the members' best interests at heart.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

The employees of an excellent credit union will understand the specific needs of its members.

Our Members Would
Strongly Disagree

1 2 3 4 5 6 7

Our Members Would
Strongly Agree

=====

Part 2 :

Directions : Listed below are five features which pertain to credit unions and the services they deliver. We would like to know how important each feature is to your members when they evaluate the service quality of your credit union. **Please allocate a total of 100 points amongst the five features listed below according to the importance of each in your opinion, to your members.** The more important a feature is likely to be to your members, the more points you should allocate to it. Please ensure that the points you allocate to the five features total 100.

1. The appearance of the credit union's physical facilities, equipment, personnel and communication materials. _____ points
 2. The credit union's ability to perform the promised service dependably and accurately. _____ points
 3. The credit union's willingness to help members and provide prompt service. _____ points
 4. The knowledge and courtesy of the credit union's employees and their ability to convey trust and confidence. _____ points
 5. The caring, individualized attention the credit union provides its members. _____ points
- Total points allocated** **100 points**
=====

Which one feature among the above five is likely to be **most important** to your members?
(please enter the feature's number) _____

Which feature is likely to be **second most** important to your members? _____

Which feature is likely to be **least** important to your members? _____

=====

Part 4 :

Directions : Listed below are the same five features as listed in Part 3 which concerns an organisation's performance. Employees and organization units sometimes experience difficulties in achieving the standards established for them. For each statement below, please circle the number that best represents the degree to which your credit union and its employees are able to achieve the pre-determined performance standards.

| | Unable to Meet Standard(s) Consistently | | | | | Able to Meet Standard(s) Consistently | | No Standard(s) Exist |
|--|--|---|---|---|---|--|---|----------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | () |
| The appearance of the credit union's physical facilities, equipment, personnel, and communication materials. | | | | | | | | () |
| The ability of the credit union to perform the promised service dependably and accurately. | | | | | | | | () |
| The willingness of the credit union to help members and provide prompt service. | | | | | | | | () |
| The knowledge and courtesy of the credit union's employees and their ability to convey trust and confidence. | | | | | | | | () |
| The caring, individualized attention the credit union provides its members. | | | | | | | | () |

=====

Part 6 :

Directions : The following statements are designed to measure your perceptions about your credit union and its operations. Please indicate the extent of agreement of each statement by circling one of the seven numbers on the scale.

| | Strongly Disagree | | | | | Strongly Agree | |
|--|----------------------|---|---|---|---|-------------------|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| We regularly collect information about the needs of our members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| We rarely use marketing research information that is collected about our members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| We regularly collect information about the service quality expectations of our members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The managers in our credit union rarely interact with members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The customer contact personnel in our credit union frequently communicate with management. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Managers in our credit union rarely seek suggestions about serving members from customer contact personnel. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The managers in our credit union frequently have face to face interactions with customer contact personnel. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The primary means of communication in our credit union between customer contact personnel and upper level managers is through memos. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Our credit union has too many levels of management between customer contact personnel and top management. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Our credit union does not commit the necessary resources for service quality. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| | Strongly Disagree | | | | | Strongly Agree | |
|--|-------------------|---|---|---|---|----------------|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Our credit union has internal programs for improving the quality of service to members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| In our credit union, managers who improve quality of service are more likely to be rewarded than other managers. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Our credit union emphasizes selling as much as or more than it emphasizes serving members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Our credit union has a formal process for setting quality of service goals for employees. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| In our credit union we try to set specific quality of service goals. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Our credit union effectively uses automation to achieve consistency in serving members. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Programs are in place in our credit union to improve operating procedures so as to provide consistent service. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Our credit union has the necessary capabilities to meet members' requirements for service. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| If we gave our members the level of service they really want, we would go broke. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Our credit union has the operating systems to deliver the level of service members demand. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Thank you for your time and cooperation. All the information that you have provided will be kept in strict confidence. Please return the completed questionnaire to your Management Office at your earliest convenience. You are invited to comment on any aspects of service quality or any additional opinion(s) that you would like to make.

ATTACHMENTS

**Attachment 1 : The Primary Data of the Service Quality Survey
for the American Study (1988)**

**Attachment 2 : The Primary Data of the Financial Service Quality
Survey at the Illawarra Credit Union, NSW (1988)**

Attachment 1 : The Primary Data of the Service Quality Survey for the American Study (1988)

Table 1 Comparison of Customers' Expectations with Managers' and Contact Personnel's Perceptions of Those Expectations

| | Customers | Contact Personnel | Managers |
|----------------|-------------------|----------------------|-------------------|
| Tangibles | 5.29 ^a | 5.50 ^b | 5.54 ^b |
| Reliability | 6.48 ^a | 6.09 ^b | 6.39 ^a |
| Responsiveness | 6.40 ^a | 6.12 ^b | 6.32 ^a |
| Assurance | 6.47 ^a | 6.27 ^b | 6.43 ^a |
| Empathy | 6.25 ^a | 5.96 ^b | 6.06 ^b |
| Total | 6.19 ^a | 6.00 ^b | 6.15 ^a |

* Reading across the rows, numbers with similar letters indicate perceptions that are statistically the same. Numbers with different letters indicate perceptions that are statistically different.

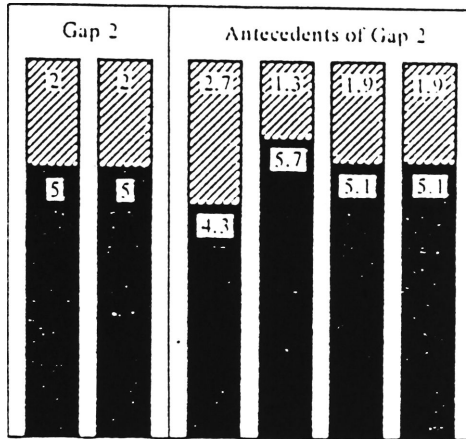
Table 2 Scores on Factors Pertaining to Gap 1*

| | Marketing Research Orientation | Upward Communication | Levels of Management |
|---------------|--------------------------------------|-------------------------|-------------------------|
| Company 1 | 5.3 | 4.7 | 3.3 |
| Company 2 | 4.2 | 4.7 | 3.6 |
| Company 3 | 4.3 | 4.4 | 3.8 |
| Company 4 | 5.0 | 5.0 | 2.2 |
| Company 5 | 4.7 | 4.4 | 2.3 |
| All companies | 4.7 | 4.6 | 3.0 |

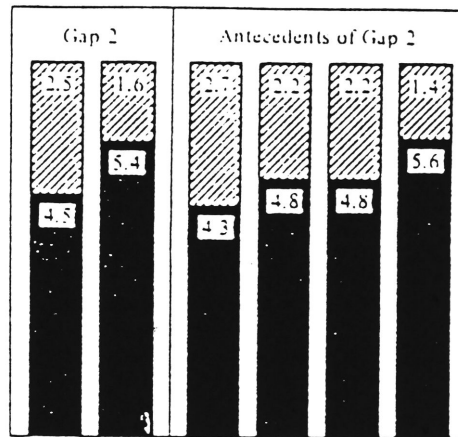
* Scores are average values on a seven-point scale on which higher numbers represent more favorable scores.

Source : Zeithaml Valerie A., Parasuraman A. & Berry Leonard L. (1990). *Delivery Quality Service : Balancing Customers Perceptions and Expectations*. The Free Press.

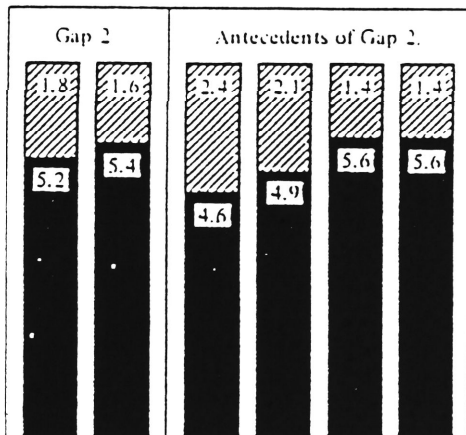
COMPANY 1



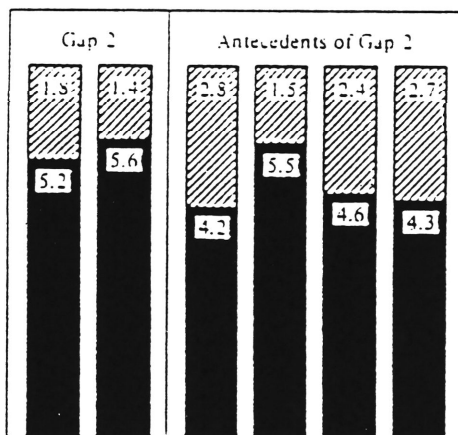
COMPANY 2



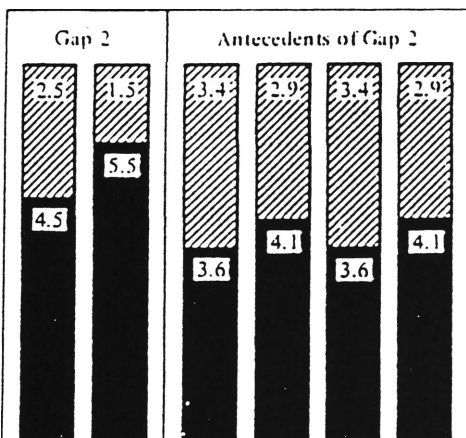
COMPANY 3



COMPANY 4



COMPANY 5

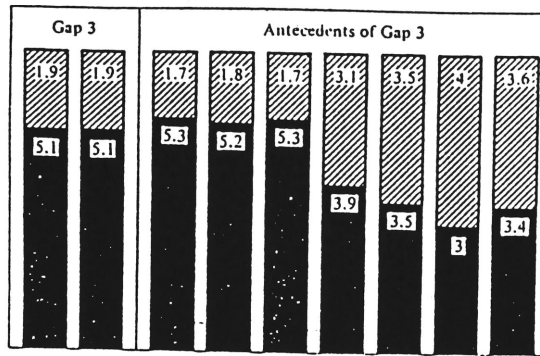


■ Current Status

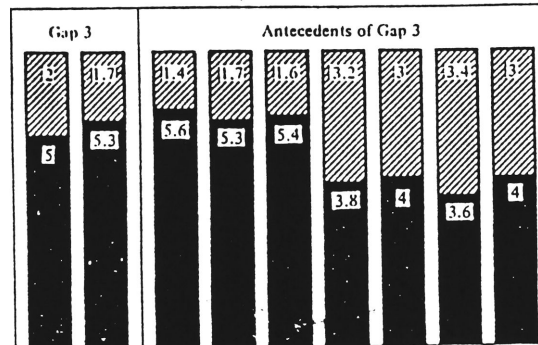
▨ Opportunity for Gap Closure

Table 3 Gap 2 and Its Antecedents

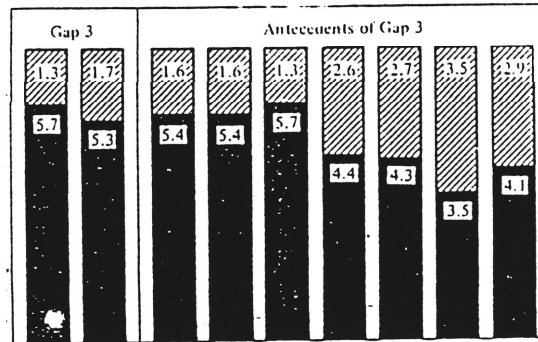
COMPANY 1



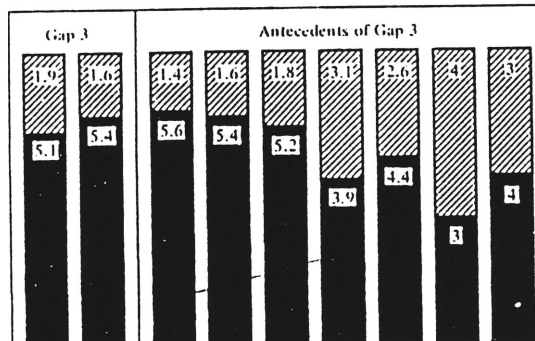
COMPANY 2



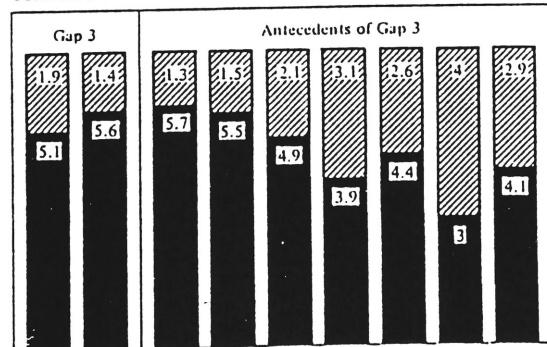
COMPANY 3



COMPANY 4



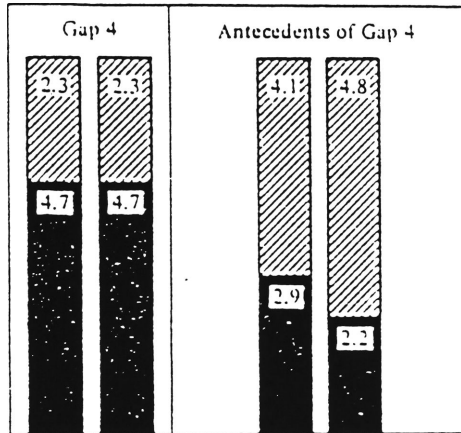
COMPANY 5



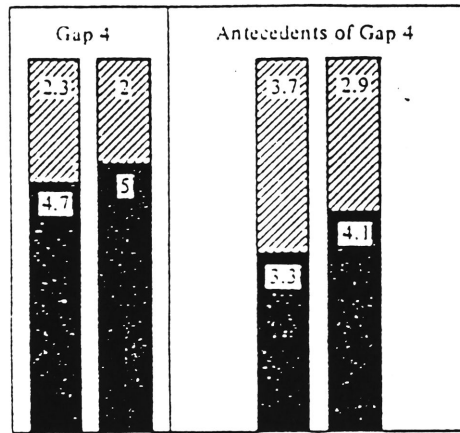
■ Current Status ▨ Opportunity for Gap Closure

Table 4 Gap 3 & Its Antecedents

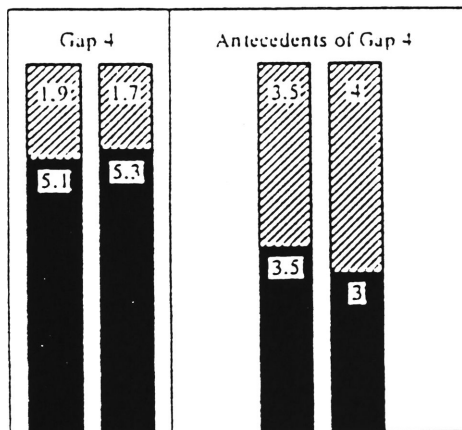
COMPANY 1



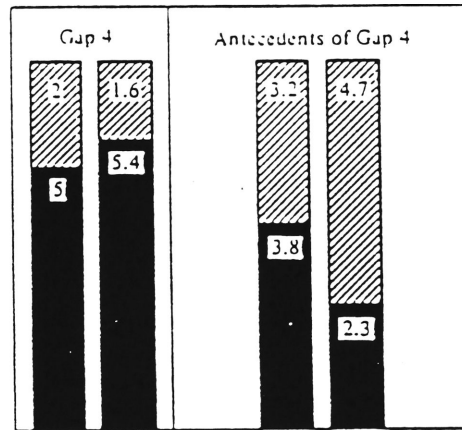
COMPANY 2



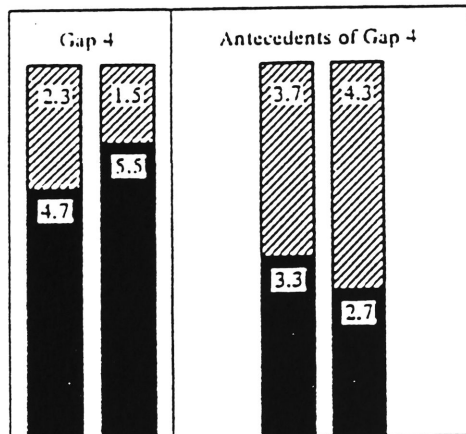
COMPANY 3



COMPANY 4



COMPANY 5



■ Current Status ▨ Opportunity for Gap Closure

Table 5 Gap 4 and Its Antecedents

Managers' Perceptions of Gap 4
Contact Personnel's Perceptions of Gap 4
Horizontal Communication
Propensity to Overpromise

Gap 2

| Factors | Company 1 | Company 2 | Company 3 | Company 4 | Company 5 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Management Commitment | X | | | | X |
| Goal Setting | | | X | X | |
| Task Standardization | X | X | | | |
| Perception of Feasibility | | | X | | |

Gap 3

| Factors | Company 1 | Company 2 | Company 3 | Company 4 | Company 5 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Teamwork | X | X | | X | X |
| Employee-Job Fit | X | | X | X | |
| Technology-Job Fit | | X | | | |
| Perceived Control | | | X | | X |
| Supervisory Control Systems | | | | | |
| Role Conflict | | X | | X | |
| Role Ambiguity | X | | | | |

Gap 4

| Factors | Company 1 | Company 2 | Company 3 | Company 4 | Company 5 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Horizontal Communication | X | X | X | X | |
| Propensity to Overpromise | | | | X | |

Table 6 Key Drivers of the Gap: Factors that Are Statistically Significant

Attachment 2 : The Primary Data of the Financial Service Quality Survey at the Illawarra Credit Union, NSW (1988)

Table 1

Mean Scores for Perception and Expectations Statements for Members and Senior Executives Groups¹

| Variables ⁴ | Perception ² | Expectation ³ | |
|-----------------------------------|-------------------------|--------------------------|----------------------------|
| | <u>Members X</u> | <u>Members X</u> | <u>Senior Executives X</u> |
| <u>Tangibles :</u> | | | |
| P1/E1 Equipment | 5.57 | 5.11 | 5.21 |
| P2/E2 Physical Facilities | 5.41 | 5.36 | 5.64 |
| P3/E3 Personnel | 6.22 | 6.38 | 6.07 |
| P4/E4 Communication Materials | 5.39 | 5.60 | 5.86 |
| Mean for tangibles dimension | 5.65 | 5.62 | 5.70 |
| <u>Reliability :</u> | | | |
| P5/E5 Promise | 5.58 | 6.72 | 6.64 |
| P6/E6 Sincerity | 5.56 | 6.74 | 6.71 |
| P7/E7 Accuracy | 5.42 | 6.61 | 6.57 |
| P8/E8 Punctuality | 5.79 | 6.75 | 6.64 |
| P9/E9 Consistency | 5.70 | 6.70 | 6.14 |
| Mean for reliability dimension | 5.61 | 6.70 | 6.54 |
| <u>Responsiveness :</u> | | | |
| P10/E10 Honesty | 5.55 | 6.46 | 5.86 |
| P11/E11 Promptness | 5.75 | 6.66 | 6.50 |
| P12/E12 Helpfulness | 5.97 | 6.75 | 6.57 |
| P13/E13 Response | 5.66 | 6.43 | 6.00 |
| Mean for responsiveness dimension | 5.74 | 6.58 | 6.24 |
| <u>Assurance :</u> | | | |
| P14/E14 Confidence | 5.73 | 6.61 | 6.21 |
| P15/E15 Trust | 6.00 | 6.73 | 6.43 |
| P16/E16 Courtesy | 6.09 | 6.11 | 6.64 |
| P17/E17 Knowledge | 5.70 | 6.47 | 6.29 |
| Mean for assurance dimension | 5.88 | 6.48 | 6.40 |
| <u>Empathy :</u> | | | |
| P18/E18 Individuality | 5.96 | 6.47 | 6.21 |
| P19/E19 Convenience | 5.49 | 6.23 | 6.00 |
| P20/E20 Customization | 5.94 | 6.39 | 6.43 |
| P21/E21 Care | 5.49 | 6.62 | 6.36 |
| P22/E22 Understanding | 5.43 | 6.34 | 6.14 |
| Mean for empathy dimension | 5.67 | 6.41 | 6.23 |
| Overall mean score | 5.71 | 6.38 | 6.23 |

¹ Sample sizes for members and senior executives were 2,560 and 14 respectively.

² Higher perception scores indicate a more favourable perception, whereas lower perception scores indicate a less favourable perception.

³ Higher expectation scores indicate a more strongly held expectation, whereas lower expectation scores indicate a less strongly held expectation.

⁴ Casewise deletion of missing value was used to calculate mean scores for each dimension of service quality and the overall mean score for the combined scale. Therefore, the mean scores presented vary slightly from the scores that can be calculated by averaging the scores for each statement by hand.

Table 2

Summary : Regression Analysis of Management Perception Gap (Gap 1)

| Variables | <u>Mean</u> | <u>Std Dev.</u> | <u>Correlations¹</u> | | | <u>Standardized Regression Coefficients</u> |
|---|-------------|-----------------|---------------------------------|-----------|------------|---|
| | | | <u>MRO</u> | <u>UC</u> | <u>LOM</u> | |
| Marketing Research Orientation (MRO) | 5.13 | 1.22 | | 0.74 | 0.83 | 0.51 |
| Upward Communication (UC) | 4.61 | 0.93 | | | 0.66 | 0.39 |
| Levels of Management (LOM) | 5.21 | 1.76 | | | | 0.19 |
| Management Perception Gap ¹² | 1.67 | 0.40 | 0.96 | 0.89 | 0.87 | |

¹ Correlations are significant at $p < 0.1$.

² Gap 1 as by the magnitude of the discrepancy between member expectations and management's perception of those expectations so that the higher the number the less accurate management's perceptions are.

Table 3

Scales Measuring Gap 2, 3 and 4¹

| | <u>Employees X</u> | <u>Senior Executives X</u> | <u>Differences</u> |
|--|--------------------|----------------------------|--------------------|
| Variables² | | | |
| The Quality Specification Gap (Gap 2)³ | | | |
| Tangibles | 5.56 | 4.62 | -0.94 |
| Reliability | 5.53 | 5.14 | -0.39 |
| Responsiveness | 6.20 | 5.00 | -1.20 |
| Assurance | 5.89 | 5.57 | -0.32 |
| Empathy | 5.78 | 5.15 | -0.63 |
| Mean Score for Gap 2 | 5.82 | 5.35 | -0.47 |
| The Service Delivery Gap (Gap 3)⁴ | | | |
| Tangibles | 5.61 | 5.33 | -0.28 |
| Reliability | 5.73 | 5.62 | -0.11 |
| Responsiveness | 6.11 | 5.77 | -0.34 |
| Assurance | 6.18 | 5.46 | -0.72 |
| Empathy | 6.11 | 6.00 | -0.11 |
| Mean Score for Gap 3 | 5.95 | 5.89 | -0.06 |
| The Market Communication Gap (Gap 4)⁵ | | | |
| Tangibles | 5.96 | 5.36 | -0.60 |
| Reliability | 6.16 | 5.50 | -0.66 |
| Responsiveness | 6.16 | 5.50 | -0.66 |
| Assurance | 5.96 | 5.43 | -0.53 |
| Empathy | 5.98 | 5.36 | -0.62 |
| Mean Score for Gap 4 | 6.04 | 5.43 | -0.61 |

¹ Sample sizes for employees and senior executives were 47 and 14 respectively.

² Casewise deletion of missing values was used to calculate mean scores for each dimension of service quality and the overall mean score for the combined scale. Therefore, the mean scores presented vary slightly from the scores that can be calculated by averaging the scores for each statements by hand.

³ Negative mean difference score of the quality specification gap (Gap 2) indicates that the failure of management to develop performance specifications reflecting members' expectations.

⁴ Negative mean difference score of the service delivery gap (Gap 3) indicates that there was a discrepancy between service performance specifications and service actually delivered.

⁵ Negative mean difference score of the market communication gap (Gap 4) indicates that there was a discrepancy between communications to members describing the service and the service actually delivered.

Table 4

Summary : Regression Analysis of Quality Specification Gap (Gap 2)

| Variables | Mean | Std.Dev. | MCSQ | Correlation | | | Standardized Regression Coefficient |
|---|------|----------|-------|-------------|------|--------|---|
| | | | | GS | TS | POF | |
| Management Commitment to Service Quality (MCSQ) | 5.14 | 1.16 | | 0.69* | 0.35 | 0.61** | 0.46 |
| Goal Setting (GS) | 4.82 | 1.19 | | | 0.38 | 0.61** | 0.24^ |
| Task Standardization (TS) | 5.58 | 0.61 | | | | 0.70* | 0.12 |
| Perception of Feasibility (POF) | 5.14 | 1.14 | | | | | 0.35 |
| Quality Specification Gap ¹ | 5.15 | 0.89 | 0.90* | 0.85* | | 0.62** | 0.87* |

Significant at p<0.01

^ Significant at p<0.05

* Significant at p<0.1

** Significant at p<0.5

¹ Gap 2 as measured on a seven point scale on which the higher the number the bigger the gap.

Table 5

Summary : Regression Analysis of Service Delivery Gap (Gap 3)

| Variables | <u>Mean</u> | <u>Std Dev.</u> | <u>Standardized Regression Coefficients</u> |
|--|-------------|-----------------|---|
| Teamwork (TEAM) | 6.09 | 0.80 | 0.52# |
| Employee Job Fit (EJF) | 5.56 | 0.83 | 0.22 |
| Technology Job Fit (TJF) | 5.62 | 1.15 | 0.16 |
| Perceived Control (PC) | 4.70 | 0.88 | 0.46# |
| Supervisory Control Systems (SCS) | 3.56 | 1.06 | 0.43 |
| Role Conflict (RC) | 3.16 | 1.03 | 0.53 |
| Role Ambiguity (RA) | 2.59 | 1.18 | 0.84# |
| Service Delivery Gap (Gap 3) ¹ | 4.48 | 0.32 | |

- # Significant at $p < 0.01$
 ^ Significant at $p < 0.05$
 * Significant at $p < 0.1$
 ** Significant at $p < 0.5$

¹ Gap 3 as measured on a seven point scale on which the higher the number the bigger the gap.

Table 6

Summary : Regression Analysis of Market Communciation Gap (Gap 4)

| Variables | Mean | Std Dev. | Correlations | | Standardized Regression Coefficients ¹ |
|------------------------------------|------|----------|--------------|--------|--|
| | | | HC | PTO | |
| Hortizontal Communciation (HC) | 3.88 | 1.05 | | 0.32** | 0.74 |
| Propensity to Overpromise (PTO) | 4.07 | 1.36 | | | 0.48 |
| Market Communication Gap | 3.99 | 0.98 | 0.89* | 0.72* | |

Significant at $p < 0.01$

^ Significant at $p < 0.05$

* Significant at $p < 0.1$

** Significant at $p < 0.5$

¹ Gap 4 as measured on a seven point scale on which the higher the number the bigger the gap.